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Shareholder Activism and Its Long Term Effects

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Abstract

The purpose of this paper is to provide an overview of the current climate in the activist shareholder space, with a primary focus on activist hedge funds aiming to financially benefit from their endeavors. It begins with a written timeline of the history of activist investing throughout the twentieth century and follows with a transition into the current climate. The current landscape of activist investing is then discussed, which includes both criticisms and compliments. This analysis of the current landscape includes a case study of eight well-known hedge funds, some of which operate as pure activist funds while others contain both active and passive positions, and the performance of their activist positions. The paper concludes with an analysis on potential measures that could be taken to limit the negative effects of shareholder activism while still retaining the positive effects that shareholder activism can provide.

The History of Activist Investing:

The year is 1622 and the company is the Dutch East India Company, referred to in the native language as “Verenigde Oost-Indische Compagnie.” To set the background, one must understand the origin and makeup of the Dutch East India Company. The company was incorporated in 1602 as somewhat of a merger between several of the small shipping companies that traded with the East Indies to form a natural monopoly and grew to dominate global trade throughout the seventeenth century. The company eventually gave way to the English East India Company, which was incorporated two years earlier. One large difference in the two corporations was the structure of ownership. The Dutch East India Company’s share capital was set up to be permanent. That is, shares could be publicly traded, but the company would not issue more shares nor would they buy them back from shareholders (De Jongh, 2011, 63).

Though the company’s shares were liquid, one major caveat in owning these shares was the lack of control, as the Dutch East India Company never held “participant” meetings, as they were referred to at the time, where owners could voice their opinions. Today, you might recognize this as a shareholder’s meeting, which is now required for all publicly traded companies. As one of the first multinational corporations, the company was of great interest to potential investors, who were called participants at the time. The stage was set for a battle when approximately 40% of the shareholders felt the directors had been abusing their power to further their own personal interests. With directors being elected for life, lacking personal liability and controlling a monopoly of information regarding the company, shareholders were left out in the cold with little way to combat the fraud being committed by management (De Jongh, 2011, 63-64). Still, management stayed steadfast in its ways and would not give away the control it had been given, whose opinions were probably swayed due to the huge increases in wealth all of them had seen.

In terms of shareholder control, it is understandable why the company was incorporated without any control rights. At the time, these shipping companies had a unique business model that we would find perplexing in this day and age. Before this multinational corporation was formed, investors had invested in the small precompanies, which is what they were referred to as at the time. These companies were often created for one single voyage. After the ship returned from the trip, the proceeds were divided among shareholders and the company was liquidated. After this, the participants in the last round of financing could choose whether or not they wanted to invest in the next company (De Jongh, 2011, 63). Also, it was assumed at the time that investors did not want to bother with the day-to-day operations and issues that came with operating these companies, but rather just wanted the large expected profit that came with it. In the transition from these many small precompanies to the large Dutch East India Company, the incorporators and management assumed the same rules would apply and investors would not care. Another reason the directors used to justify not giving control was that the investors had never had any part in the negotiations when the company was first formed (De Jongh, 2011, 65). In the mind of the directors, these investors were exactly the same as the investors in the precompanies. They had no reason to have any input on operations and were merely a source of capital for the company. The disconnect between both parties arose in the fact that these investors had a long-term time horizon. This was not originally thought to be the case upon the chartering of the Dutch East India

Company, but once the business evolved, directors removed the liquidation plans that were set to take place in 1623 (De Jongh, 2011, 65).

When the company was incorporated, there was a Charter formed where it was stated that investors had the choice to withdraw their money after 10-year and 21-year financial statements were released. After the company struggled early on in its inception due to a need for long-term investments, the company stated that it would no longer be releasing a 10-year statement, and rather would merge the two and just provide a 21-year financial statement (De Jongh, 2011, 67). Investors had no idea what the status of the company's financials were and were unable to withdraw their money in 1612, which started to raise some mutterings. The company justified its decision by pointing out that since shares were so common, investors could get their money back immediately by selling shares on the open market and so there would be no negative effects (Gelderblom & Jonker, 2004, 656). When the Dutch East India Company announced that it would no longer be conducting an audit on its 21-year results, participants in the company felt it was time to act. Unlike earlier talks, these participants were not aiming to withdraw their money and shut the company down, but rather end the internal abuse and imbalance of power in the company's ownership and management (De Jongh, 2011, 68).

The participants sent pamphlets out to the public, detailing what exactly had occurred. They broke it down into three main issues: there was no audit conducted, directors were lining their own pockets without any oversight, and investors had no control rights. To the modern investor, these all seem like logical requests to be dealt with, though at the time they met resistance. Even at the time, other companies were much friendlier to shareholders. The English East India Company (EIC) had an annual meeting where financial information was released and investors were able to appoint their board of directors as well as decide their annual salaries (De Jongh, 2011, 74). The participants in the Dutch East India Company looked to the EIC for guidance in structuring their demands. Still, the situation was complicated as the Dutch East India Company was a semipublic company, meaning that it needed to adhere to the public interests of the Netherlands. This gave directors somewhat of an explanation for why profitability had been low during the period, which was partially due to the battles between the company's ships and Portuguese and Spanish ships. Directors offered other explanations, such as the complexity of preparing an audit with so many ships in a fleet, though none of the explanations satisfied the participants (De Jongh, 2011, 77). The real issue was the connection of the directors to the government. This made it hard to upend the system, as many of the directors were the ones making the decisions. Eventually, the provinces without direct ties to the directors of the Dutch East India Company were able to convince the States General, the governing body, that the Charter needed to be amended, which they did (De Jongh, 2011, 78).

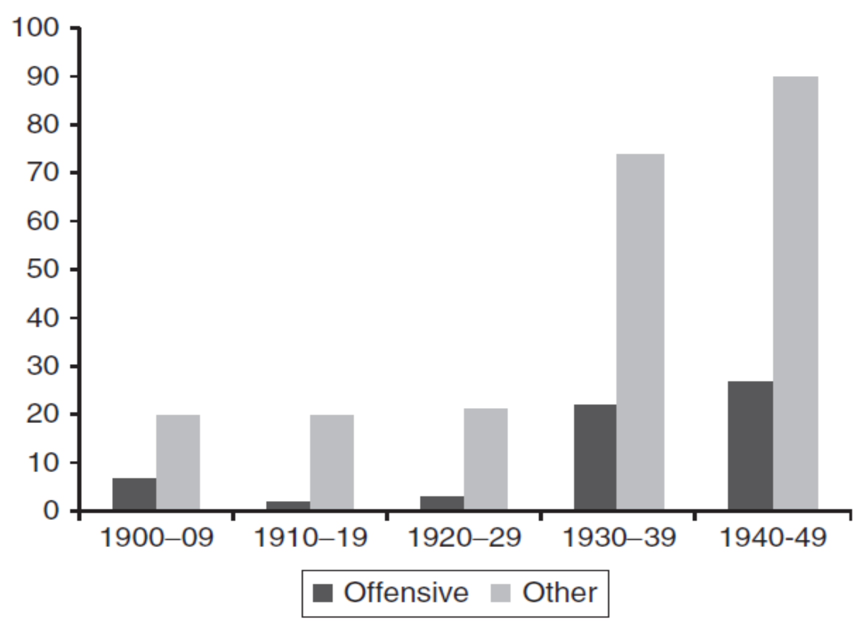
After this compromise between directors and shareholders, the shareholders still did not have many of their needs met or directors simply did not comply. For example, directors still did not release financial statements and continued to trade the shares of the company on insider information. Some shareholders were still upset, but those that kept faith in the company were duly rewarded, as the Dutch East India Company transformed into a monopoly and investors received ample dividends and a large appreciation in share prices (De Jongh, 2011, 81-82). The important fact to come out of this story is essentially the advent of shareholder activism. While nothing extremely productive came out of their demands, the participants established a right to question management and engage in discussion regarding the best course of action for the given company, something that has transformed an incredible amount to where it is today: shareholder activism.

Activist investing can be defined as a style of investing in which the investor assertively tries to impact the business underlying the investment. These investors do so by influencing board members, senior executives and other large investors, either through a public or private forum (Lin, 2015, 472). One distinction that can be drawn between these investors and the shareholders of the Dutch East India Company is the necessity facing both parties. In the case of the Dutch East India Company, a reaction was both justified and needed by the shareholders in the company, as without action they would have been left with nothing. The modern-day activist investor has much different objectives, which often are seen to be self-motivated rather than for the good of the company. For this reason, many experts believe activist investing is currently harming the economy. Still, there are people that firmly believe activist investors have a positive impact on companies (Bebchuk, Brav & Jiang, 2013). In order to realize how we got to the current culture of activist investing, we must study the gradual shift in activist investing and where it currently stands.

While the root of activist investing came about in the Dutch East India Company, there have been various campaigns since. Many argue that the true origins did not arise until the legendary investor Ben Graham took up the cause in the 1920's. Before this case, shareholders were inclined to speak up only if the company was being clearly mismanaged. This case was the first documented case of an investor recognizing an opportunity and brought it to management, only to be rebuffed and follow up by creating a proxy vote among shareholders. Northern Pipeline came about after the United States government recognized Standard Oil as a monopoly and forced a breakup of the company. Graham was astute enough to recognize that the liquid assets the company owned, which were unrelated to their actual business, were worth around $95 a share while their stock was only trading at $60 a share (Carlen, 2013). Because of this, Graham slowly built his ownership share to around 5% and requested the company distribute $90 per share by selling off these assets, but it refused. Finally, one year after initially trying, Graham was able to get enough shareholder support to garner a $70 per share distribution using the extra liquid assets (Carlen, 2013). One of the investors was a man by the name of John Rockefeller, who was the founder of Standard Oil and an extremely wealthy man (the wealthiest in the history of the United States when adjusted for inflation). He was so impressed that he extended this thought to many of the other companies that had been products of the Standard Oil divesture, and ended up making a lot more money in the process (Carlen, 2013). This quote in 1932 by Ben Graham says it all, and really set the stage for future investors to become active: "[Shareholders] have forgotten also that they are owners of a business and not merely owners of a quotation on the stock ticket" (Carlen, 2013).

Benjamin Graham was certainly a legendary investor, though he was not known for his activist endeavors, as to him, activism was more of a supplementary tool to be used in extreme cases. Slowly but surely, however, bright minds began to discover that shareholder activism could help them make a quick return on a position. These campaigns, referred to as "offensive" shareholder activism by John Armour and Brian Cheffins, imply that company management does not see a need to change but the activists that come in believe they can unlock value in the shares, much like Ben Graham did. The authors define this type of activism as an investor (this could be an individual or corporation) without a large stake in a company choosing to buy shares "with the intention to agitate for changes to correct failures by management to maximize shareholder returns" (Armour and Cheffins, 2011, 256). The scope of this paper is more geared towards this type of activism, which is in contrast to a large group of shareholders such as the owners of the Dutch East India Company coming together and spreading the word among one another to form a cohesive group. As can be seen in Figure 1, both "offensive" activism and general proxy challenge activism increased dramatically from the early 20th century up through the 1940's. During the entire time period there were 61 incidents of "offensive" activism, an average of 1.22 per year, though the authors acknowledge that a few campaigns could be missing from this dataset, as offensive activism does not always result in a proxy battle (Armour and Cheffins, 2011, 256).

Figure 1:



Source: Armour and Cheffins, 2011, 256

Of the 61 incidents, 60.6% were raised by individuals, 11.5% were raised by nonfinancial corporations, and the remaining 27.9% were raised by financial corporations. Only 11.5% were campaigns raised by a collective investment vehicle (a subset of financial corporations), the equivalent of today's hedge funds. This is in contrast to more modern figures, where from 2007 to 2008, 50% of the 102 offensive campaigns were brought about by hedge funds (Armour and Cheffins, 2011, 256-259).

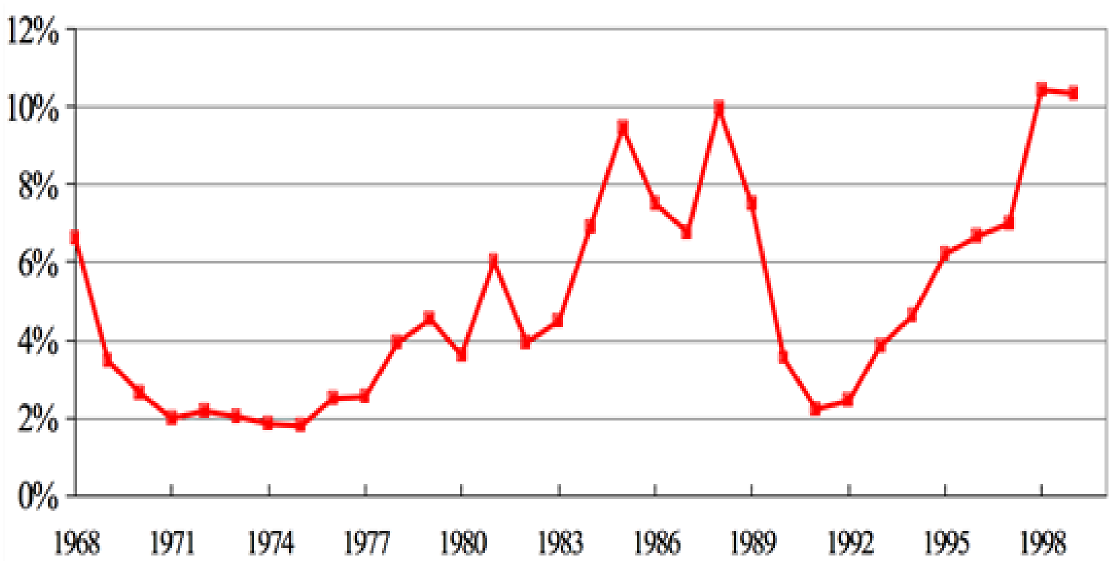
Shareholder activism has steadily risen since these years for a variety of reasons. One reason is the increased access to information, especially information that is credible. The first regulation of public companies to disclose information was the Securities and Exchange Act of 1934 (48 Stat. 881). This explanation seems like a possibly justification for the large increases of proxy challenges during the 1930's and 1940's. Lower trading costs are another potential explanation for the increase in activism over the years. Prior to 1968, New York Stock Exchange (NYSE) member firms provided fixed minimum broker commissions that led to much higher fees than investors are used to today. Slowly, over the period 1968 to 1975, the fixed commission structure was eliminated to reduce trading costs (Stout, 1995, 634). This decreased cost of trading meant that potential offensive activist investors could generate a larger return, especially given the fact that these investors had to buy massive quantities of shares in order to initiate a position in which they could force management to change its strategy.

One potential activist strategy that is and was commonly used by investors is the takeover of a company. The use has evolved over time, though it generally did not begin in the open market until the 20th century. Armour and Cheffins studied instances in which a group or individual made an attempt to buy up a large quantity of shares in order to attain majority control of the company without the approval of the target company's board and found 82 instances of an attempted takeover, an average of 1.64 attempts per year (Armour and Cheffins, 2011, 269). Until 1950, takeover attempts and offensive shareholder activism seemed to be inversely related during most decades; that is, in periods when takeover attempts were prominent, shareholder activism was less prominent (with the exception of 1910-1919, when both levels were low). This would make logical sense, as both strategies are an attempt to gain control over assets that are believed to be underperforming or being mismanaged. When combined, takeover attempts and offensive shareholder activism occurred at an average of just under 3 times per year, about 0.8% of 2015 levels (WSJ-FactSet Activism Scorecard, 2016).

As the decades progressed, more and more investors began to recognize how underutilized these tactics were, and how many opportunities there were to increase productivity. During the 1960s and 1970s, however, individuals still made up a majority of shareholders, and due to the legislation of the SEC this made it difficult to have concrete influence (Jackson, 2010, 11). Shareholder proposals were growing, but most had little influence and hostile takeovers were few and far between due to the large individual investor presence in the market. Independent directors, that is directors who do not have a monetary link, were not required by the NYSE until 1977 (Jackson, 2010, 12). Managers at this time had little incentive to focus on long-term value creation. In 1980, only 20% of CEO compensation was tied to stock market performance. Another damaging trend at the time was the increase of conglomerates. Companies at the time believed scale was the key to increasing operating efficiency and also felt they would be diversified in the case of certain sector downturns (Jackson, 2010, 12). This often had the effect of creating excess capacity and underperforming assets. At the start of the 1980s, the economy began to slow and the period of stagflation began, resulting in a relatively flat stock market combined with high interest rates (Jackson, 2010, 13). All of these trends came together to create a market ripe for corporate takeovers during the start of the 1980s, which is known as the heyday of the corporate raider (Kosnik & Walsh, 1993).

Figure 2:

Acquisition Volume as a % of Average Total Stock Market Capitalization



Source: Holmstrom, 2001

As the figure above illustrates, there was a large uptick in acquisition activity during the 1980s and extending into the 1990s. In the 1980s, between 20% and 40% of offers were contested depending on the year, while in the 1990s contested offers made up 15% or less of all tendered offers. Many of the acquisitions at this time were completed using a large amount of debt, which is referred to as a leveraged buyout (LBO) (Holmstrom & Kaplan, 2001, 124). Investors who profited from this aggressive and risky form of purchasing a company can thank Michael Milken and Drexel Burnham, who first developed the public offering of “junk bonds.” These bonds were used as a method for combating high inflation and low market returns and gave shell companies a way to raise enough capital to acquire underperforming companies (Jackson, 2010, 14). Pension funds would often invest in this debt, as the groups had a certain rate of return that they needed to meet in order to support future retirees. With the stock market remaining somewhat flat and the required returns of pension funds not changing, the funds often turned to this form of high-yield debt to meet obligations (Icahn, 1989).

In the 1980s, almost half of all publicly traded major U.S. companies received hostile takeover bids, meaning target management never approved the bid (Holmstrom & Kaplan, 2001, 121). Companies tried to plan for a way to resist these offers, and eventually were given a potential defense in the advent of what is commonly referred to as a “poison pill,” though more formally called a shareholder rights plan. The defense was invented by Martin Lipton in 1982 (Brown, 2002). These plans essentially had the effect of diluting the overall share count, generally through allowing shareholders to buy current stock at a discount when an acquirer hits a certain ownership threshold. This action creates a disincentive for the potential acquirer, as their would-be ownership is cut almost in half, though this poison pill must be chosen to be activated by the board of directors (Brown, 2002). That is, if the board feels the takeover offer is beneficial for shareholders, they would not exercise the option.

Over 400 US public companies adopted a shareholder rights plan from 1985 until 1990 (Meyer & Strong, 1990, 73). Advocates of this defense claim that it is a method of limiting offers that are one-sided to certain shareholders (such as partial tender offers) and forces bidders to negotiate with the board in order to find other means of creating long-term value. Opponents claim that the takeover defense is an obvious choice for complacent board members who want to remain in control and that shareholders have no say in whether these poison pills are enacted or not (Meyer & Strong, 1990, 73). In a study of the success of different takeover defenses from 1991 to 2005, it was found that the likelihood of a successful bid dropped from approximately 50% down to just 33% when the poison pill was present. It was also found that the poison pill did in fact generally lead to further negotiations and eventually improved the price of a bid in some cases (Jackson, 2010, 17). The efficacy of shareholder rights plans is still under debate today, but at the time it was a sign of how much the takeover market was growing and how many companies saw it as a major threat.

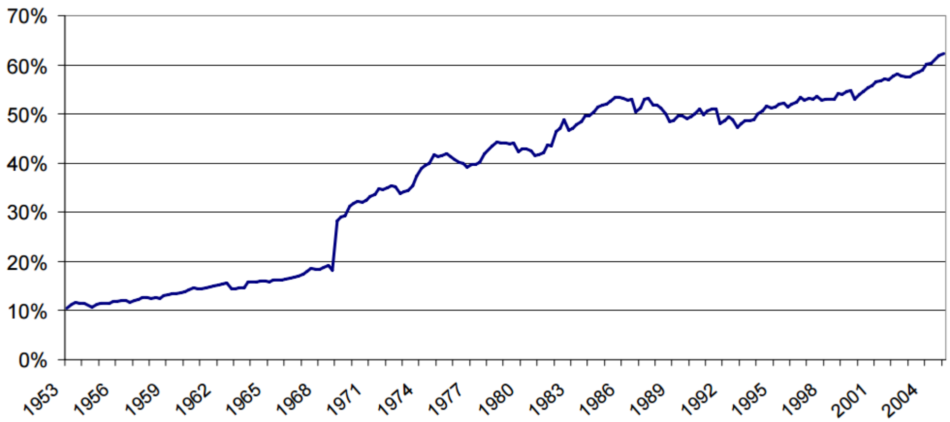
Even though these takeover attempts were often contested, empirical evidence suggests that as a whole, the takeovers in the 1980s had a positive net effect on businesses. This was primarily due to the reasons listed above that fostered a market prime for takeovers (Holmstrom & Kaplan, 2001, 127). Complacent and inefficient management was prominent, and was an easy enough target for corporate raiders of the time. Carl Icahn and T. Boone Pickens, two prominent corporate raiders at the time, were often were subject to criticism that they were putting people out of work. Icahn's response to this criticism was, "the difference is that I and other 'raiders' usually eliminate people who are most responsible for the mess – the 'Top Brass'" (Icahn, 1989). In the same article, Icahn seems to foreshadow the future, or perhaps himself induced the change, claiming it would be more beneficial for pension funds to invest directly in the takeovers rather than have them finance the acquisitions through debt, as they were simply missing out on a great deal of return and taking on excess and unnecessary debt (Icahn, 1989).

Even prior to Carl Icahn's announcement, however, the landscape was shifting from individual corporate raiders who had set up shell corporations to raise capital and commit takeovers towards institutional investors who were beginning to notice the potential returns they were missing out on. The establishment of the Council of Institutional Investors, led by California's treasurer at the time, Jesse Unruh, is often seen as the beginning of institutional investor activism (Gillan & Starks, 2007, 8). At the time, Unruh was in charge of both the California Public Employees Retirement System and the California State Teachers Retirement System, more commonly known as CalPERS and CalSTRS, respectively. Texaco was a large investment for both funds, and while they held the stock the Bass Brothers, prominent corporate raiders of the time, acquired 9.8% of Texaco's outstanding shares before selling them back at a $137 million market premium (Gillan & Starks, 2007, 8). After Texaco did not provide the same offer to either pension fund, Unruh felt the need to create the Council of Institutional Investors to ensure these institutional shareholders had the same rights as other shareholders. While the initial style of activism among these funds was similar to that of traditional activists, which was to simply submit shareholder proxy proposals, the style evolved. Pension funds began engaging in dialogue with target companies, and only after that used media and additional outlets to make other investors aware of the firm's issues and the fund's proposals (Gillan & Starks, 2007, 9).

As the 1990s approached, the number of institutional investors continued to grow due to an increased presence of union funds and a large growth in mutual funds. The ownership of shares by mutual funds grew from 5% in 1985 to just over 12% in 1995 (Jackson, 2010, 16). As can be seen in Figure 3, this increase was not exclusive to mutual funds. During the late 1990s into the early 2000s, institutions began to control a larger and larger percentage of shares, giving them more power to dispute management. Over time, CEOs and CFOs began to communicate with major shareholders and money

Figure 3:

% Ownership of Institutional Investors in U.S. Stock Markets



Source: Gillan & Starks, 2007, 48

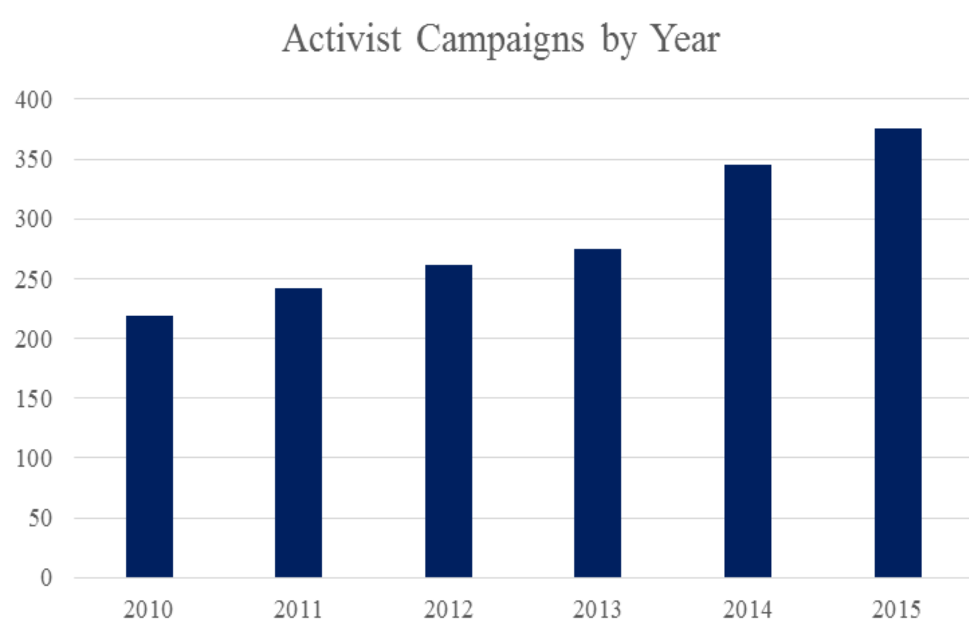
managers, which had not been the case just fifteen years prior (Gillan & Starks, 2007, 11). This era also marked a staunch increase in merger and acquisition (M&A) activity. From 1991 to 1997, M&A was 5.4% of GDP and moved up to 10.8% of GDP from 1998 to 2005. This was partially driven by the technology industry, but very few of the mergers and acquisitions involved hostile bids, a stark contrast with the 1980s (Jackson, 2010, 17). Another important development of this time was the large increase in stock as a percentage of CEO compensation among New Economy firms, growing from 33% in 1992 and going up to 83% in 2000. These were the firms focused on technology and high growth, which could be seen as an indicator for the shift in market trends at the time. This strategy of compensation took off when the SEC eventually changed the law in order to allow executives to exercise stock options and sell the stock at the same time (Jackson, 2010, 19). This also led executives to start focusing on short-term time windows, since their compensation was so heavily linked to it. As these managers focused more and more on the short-term, institutional investors began to see the effects. Investors took a liking to stocks that had momentum and wanted immediate returns, so they would gravitate towards funds that could offer this. This wave of new culture has only perpetuated the current activist climate

This shift into shorter-term investment time horizons has been a product of multiple factors. As mentioned above, the compensation structures and quick returns investors saw in the late 1990s made them hungry for more. In addition to this, the shift towards the technology sector shortened the time horizon. Often, investors like to quickly cash in on one investment before going out and looking for the next big innovation in the field. As of 2014, the technology sector had the shortest holding period by investment managers of any of the twenty Morningstar equity categories by a wide margin. Also, according to the CFA Institute, 43% of investment managers have more than 50% of their compensation based on yearly performance and 79% have less than 50% based on longer-term performance measures (Almeida, Boyd, Flaherty & Roberge, 2015, 3). Potentially because of this, the average holding period for stocks has decreased from above 5 years in 1989 to just 1.92 years as of December 2014 (Almeida et al., 2015, 2). This shift towards a technology-oriented world is evident in the fact that, according to Bloomberg LP (2016), technology stocks currently make up over 20% of the S&P 500, and have more than a 5% advantage over the next largest sector. Investors have trended more and more towards focusing on the short-term investment time horizon, and activist investors have had no choice but to follow the trend in order to continue to attract clients.

Current Landscape:

Activist investing has come under some scrutiny in recent years, as more and more money managers look for ways to break out of the mold and offer superior returns to their investors. There are a large variety of strategies, some as short-term as a matter of microseconds and some as long-term as the Warren Buffett strategy of wanting to hold an investment until the end of time. The center of the debate regarding shareholder activism in the present day is whether the managers are more concerned about taking an active role and flipping their stake for a quick profit, or if managers are initiating the activism in order to unlock long-term value for shareholders. When one looks at the data regarding activist campaign activity over the last six years, it is clear to see activity has exploded. Back in 2010, there were 219 activist campaigns compared to 374 in 2015, which represents an 11.3% compound annual growth rate (WSJ-FactSet Activism Scorecard).

Figure 4:

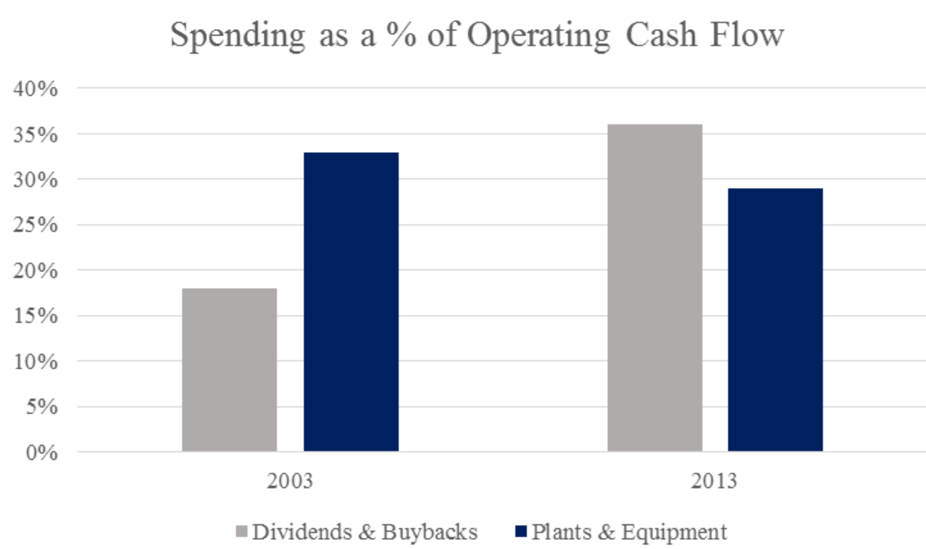


Source: WSJ-FactSet Activism Scorecard

As of 2015, there were roughly 70 activist hedge funds, according to HFR Inc., and these hedge funds saw their assets almost double from the first quarter of 2013 to 2015, which is certainly part of the reason for the increase in campaigns, as these funds need a way to effectively deploy the new capital (Hoffman, 2015). While the trend should not be considered indicative of future growth, the very recent injection of capital has many of the hedge funds chasing returns in order to justify their excessive fees in which they take a percentage of both assets under management as well as a large percentage of the fund's performance. These fees are most commonly cited at 2/20, meaning the manager would take 2% of assets under management and 20% of the gains achieved above an agreed-upon rate (Hedge Fund Fees, 2016). This large surge in activity has left some activists partaking in strategies that many view as economically harmful.

The topic of shareholder activism has come up during the current presidential election, with Hillary Clinton addressing the issue and attempting to reduce what she refers to as "hit-and-run" activists and the philosophy of "quarterly capitalism" (Benoit, 2015). Often, these shareholders come in and pressure the board of directors to immediately return cash to shareholders through the use of buybacks, dividends and corporate breakups. The tradeoff companies commonly face is between returning this cash to shareholders and reinvesting in themselves, either through research and development, creating new plants and equipment or other forms of capital expenditures. Fortune 500 companies targeted by activists have increased their percentage of cash flow spent on share buybacks and dividends up to 37% in the first year after being approached compared to 22% in the year before. The same companies reduced capital expenditures in the five years following the beginning of an activist campaign (Benoit et al., 2015). Some speculate that firms have begun to shift their expenditures in this manner even before activists take aim at the company in order to keep their shareholders content in the short run. The data supports this hypothesis, as Fortune 500 companies have increased buybacks and dividends as a percentage of operating cash flows, up to 36% in 2013, compared to 18% in 2003. They have also decreased spending on plants and equipment from 33% of operating cash flow down to only 29% over the same time period (Benoit et al., 2015).

Figure 5:



Source: Benoit et al., 2015

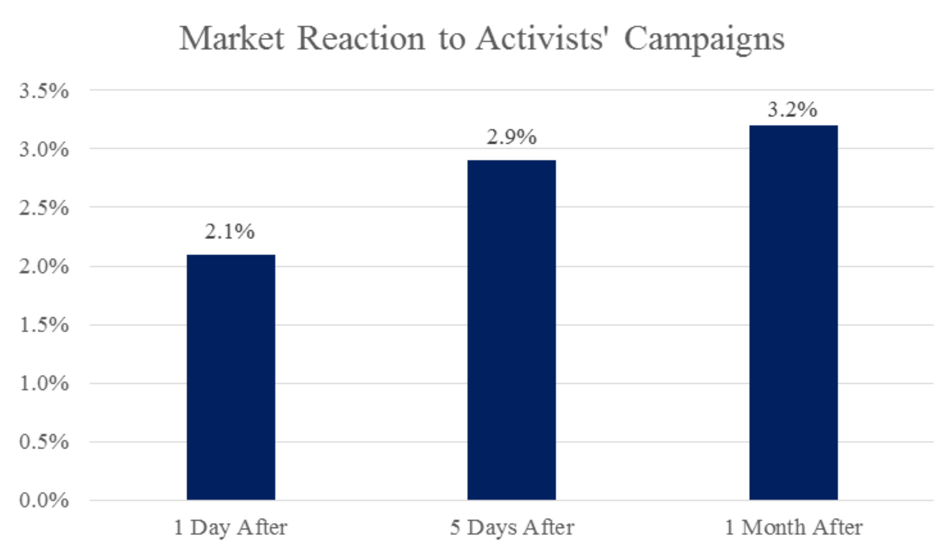
Still, not everyone sees reduction in capital as a negative. Some proponents of hedge funds contend that this reduction in capital expenditures signifies a more efficient use of capital. Activists see themselves as an unknown for the boards and management. By advocating for increased leverage to lower the cost of capital and spinning or selling off underperforming assets or divisions, which can generate capital that can be returned to shareholders, they believe they have the long-term shareholders' best interests in mind, even if they are just after a quick profit (Allaire, 2015). Still, investment is necessary for growth, and according to Michael Feroli, the chief U.S. economist at J.P. Morgan Chase & Co., capital spending by businesses makes up around one-eighth of spending in the U.S. economy and has been a crucial driver of long-term growth (Benoit et al., 2015). Steven Fazzari, an economist at Washington University, makes the point that much of the capital returned to shareholders that would have otherwise been reinvested ends up in the bank accounts of the wealthy, who tend to be the majority of shareholders and have a propensity to save more of their income (Benoit et al., 2015). According to Gary Lutin, Chairman of The Shareholder Forum, which is a website dedicated to the long-term interests of investors, the financial engineering that is commonly used can have disastrous effects by decreasing the company's ability to adapt to issues or take advantage of opportunities. The financial engineering increases the risk of a company while also decreasing access to capital (G. Lutin, personal communication, October 14, 2015).

One such example is the case of Wet Seal Inc., a teen-fashion retailer that was the target of the activist hedge fund Clinton Group Inc. back in 2012. Clinton managed to get four representatives on the board of directors, after which the company cut jobs and repurchased $25 million of stock even while the company had a negative free cash flow of $46.5 million in the prior year, according to Bloomberg LP (Benoit et al., 2015). Just this year, Wet Seal shut down two-thirds of its stores and filed for bankruptcy protection, which the company blamed on an overall decline in the market along with other strategic mistakes. Jeff Van Sinderen, an analyst at B. Riley & Co., said that while this may be true, the company would have had a lot more flexibility and noted how during tough times, $25 million can have a great effect (Benoit et al., 2015).

Another common argument by proponents of shareholder activism is that board members and management can become complacent. These companies are used to operating a specific way and with a certain culture; they have certain strategies and as the saying goes, old habits die hard. Often, these managers do not even think to make certain changes to their management style (Allaire, 2015). This argument certainly has some merit to it, as often an outside pair of eyes can be most effective in identifying flaws in capital allocation that the company had never considered. One potential counterargument to this point is the use of the consulting industry. According to Gavan Blau (2015), the management consulting business in the United States alone brings in over $200 billion in revenue, with 20.3% of this coming from corporate strategy and 36.9% coming from process and operations management. While these are broad sectors and not entirely directed at what activists are aiming to do, these companies are still spending quite a bit to get someone with an outside perspective who knows the industry to look at their company and give a thorough analysis of how to improve long-term returns. Another counterargument company management could potentially offer would be that they have a better understanding of both the competitive landscape in their industry and what the future outlook is for the company. Sometimes, companies are reluctant to disclose future strategy or intentionally release guidance that is not actually in their long term plans. This is a common tool used in the economic field of game theory, as the idea is to lead other firms in your industry to believe they should take a certain action first.

One final common endorsement is the fact that these shareholders are, in fact, the owners of the company and should have some control over what happens (Allaire, 2015). This is very valid argument, and can often be justified. One issue with this statement, however, is that these activist hedge funds often only take a stake of 5-10%, which is nowhere near a majority ownership. There have even been instances of investors gaining some control by initiating a position of less than 1%, which was the case when ValueAct's Jeffery Ubben managed to land his fund a seat on the board of Microsoft and, some have speculated, helped to remove Steve Ballmer as Chief Executive Officer (Ovide, 2013). These funds have quite a bit of clout, so when individual investors or even other institutions hear them give opinions to boards, they often simply assume they are correct. This can be seen in the fact that the stocks of activist targets from 2009 to 2014 increased above the market rate at a median of 2.1% the day after and 3.2% one month after the announcement (Corporate, 2015). This would imply investors see an activist campaign as a boost to shareholder value and often trust the opinion of activists.

Figure 6:



Source: Corporate Finance Advisory and Mergers & Acquisitions, 2015

It is important to note that all three of these arguments have merit and should not be ignored. There are certainly cases in which companies would benefit from an activist coming in and explaining what could be done more efficiently. Often, activists will come in passively and make suggestions to management that are logical, and management responds by either giving them a board seat and assisting them in carrying out their agenda, or simply adhering to the advice without getting the fund involved on the board. The crucial issue that can arise is the differing time horizons between company management and the activist hedge funds that make the campaigns.

The goal of these activists is simple; they aim to attract more client money. Using the standard fee schedule mentioned above, if these activists can bring on another high net worth client who is willing to invest $50 million, they have just made themselves $1 million, and this amount can only increase based on performance. The activist hedge funds that operate in today's environment are constantly feeling pressure to attract new investors and retain current investors due to the incredible amount of players in the market. These activists know what their clients want, which is simply to make money. Gary Lutin believes this can have a negative effect on how activists deal with companies. These funds release quarterly results and every wealthy investor who is looking to invest will be looking at these figures before choosing a fund to invest in. For this reason, the activists have to take a quarterly focus on returns lest they run the risk of losing potential clients (G. Lutin, personal communication, October 14, 2015). Chief Justice Strine of the Delaware Supreme Court reiterates this point, saying "there is a danger that activist stockholders will make proposals motivated by interests other than maximizing the long-term, sustainable profitability of the corporation" (Strine, 2011).

The General Corporation Law of the State of Delaware (DGCL) is often looked to as a guideline for corporate law all around the country due to the fact that over 50% of publicly-traded companies and 64% of Fortune 500 companies are incorporated there (State, 2016). Under the legislation of the DGCL, capital that the corporation receives from investors (which would include any purchase of the company's stock, even if it were done in the secondary market) is permanent capital. Because of this, directors have a fiduciary duty to maximize the overall value of the corporation in order to best benefit the investors who hold the company's stock (Laster & Zeberkiewicz, 2015). J. Travis Laster, a Vice Chancellor of Court of Chancery of the State of Delaware, explains where a conflict can arise. The activists who take seats on the board of companies must act in the best interests of both the corporation and the investor, so it is clear how they face a conflict of interest. In one case, the activist must manage in order to optimize the perpetual capital, while in the other, the activist must manage for an exit (Laster & Zeberkiewicz, 2015).

For this reason, these activist investors must create the appearance of maintaining a long-term focus in order to bypass legal hurdles and convince the company's board of directors that they have the long-term interests of the company in mind. Often, a case can be made for why it would be beneficial, and it is more a matter of opinion among board members. This plays to the advantage of activists, but it is not only these hedge fund managers who are pushing for a shorter-term time horizon.

According to Morgan Stanley, as of 2014 the average institutional ownership among S&P 500 companies was 83% and was expected to increase at a rate of 0.8% per year as more and more investors switch into mutual funds (Hughes, 2014). The significance of this is that these mutual funds have the same struggle as the activists do. They must show good quarterly returns and are not as focused on the long-term health of the company, so the pressure trickles down to the executives at the company. With such a large ownership percentage, what the institutions say has a large effect on how the board governs the company. The market is trending towards a shorter-term focus, which can have devastating effects.

Another aspect of activist hedge funds that can create a negative effect is the fact that many of them engage companies for the wrong reason. These activists understand that advertising is a major part of any company, and their investment firms are no exception. The more people hear about them, the more likely they are to attract new investors. Because of this, with every activist campaign they engage in, the funds want to make noise. What is meant by this is making it into the press consistently, which can be done a variety of ways: getting a seat on the board, writing publicly available letters to the board or even speaking directly to the board (G. Lutin, personal communication, October 14, 2015).

One less conventional example of this was the use of colorful language by activist investor Bob Chapman. In a 13D filing, Chapman cited his interaction with the Chief Financial Officer of the company he was targeting, explaining the executive's reaction when Chapman criticized his reputation among other investors. This filing, according to John Carney of DealBreaker, was the first time an SEC filing contained the four-letter obscenity starting with "f" followed by "you" (Carney, 2007). This story garnered enough attention to alert the press, which may have been the true motive of Chapman. In his mind, potential investors would see him as brash and abrasive, which is often what is needed as an activist investor. This focus on making the press could lead normally passive investors to feel forced to take aggressive measures in order to keep their brand name fresh in the mind of potential investors. While there is no empirical evidence to back this claim up, common sense would lead one to believe that in the hypercompetitive landscape of hedge funds, no stone is left unturned and any advantage that can be had will be had by someone. Once these unnecessary activist campaigns are taken up, hedge fund managers will have no choice but to try to extract all possible value from the position before dumping it.

Some scholars have run tests attempting to discover the success of activist hedge funds. One example is the research done by Lucian Bebchuk, Alon Brav and Wei Jiang, who studied the five year returns of companies that were targeted by activist hedge funds. In their research, the three found that the effects of approximately 2,000 interventions were followed by improved operating performance during the five years following (Bebchuk et al., 2013). There are a few aspects of this study that must be addressed, given that we are assessing the current market for shareholder activism.

One potential issue with this study is the characterization of "long-term," which was defined in the study as five years. While it is often said that three years or more is considered long-term, many would disagree with this classification. In his 1988 letter to shareholders, Warren Buffett, often considered one of the most (if not the most) successful investors of the modern era says "We expect to hold…securities for a long time. In fact, when we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever" (Buffett, 1988). One would think that the goal of most investors would be would be emulate Buffett and his superior returns, which implies an indefinite holding period. Once a study is done that tracks the 10, 30 or even 100-year performance of the securities subjected to shareholder activism, then a more concrete conclusion can be reached. As of now, however, the evidence remains equivocal.

Another issue that must be addressed is that the nature of activist hedge funds has changed. At 2,000 interventions over a 14 year period, the average number of campaigns launched per year was just under 143, which is only 40% of the current level of activist campaigns of 357. In economics, there is a law called diminishing marginal returns, which when applied to this industry may imply that the more people enter the space, the less return there is to be had. As more and more activist hedge funds form, newcomers may end up suffering from being late to the party, chasing returns that are no longer available as more and more companies are put under the microscope of activists. The entire landscape is much different than it was during the period that was previously studied.

As mentioned before, it is critical to remember that not all activist campaigns are rooted in improper motives. Many activist campaigns are taken up in order to unlock the long-term value of shares of a company and are done for the right reason. The company really is being mismanaged or is neglecting potentially profitable assets or strategies, and an investor who has experience in doing so can amend the issue. The problem, as mentioned before, is the more players that enter the field, the quicker the opportunities dry up. Also, as more capital floods into activist hedge funds, the funds must justify the high rates, and so they must go out and chase returns. Many of these funds are the smaller funds attempting to attract investors, but some believe the tendency is beginning to infiltrate the larger hedge funds. Next, we will take a look at some of the larger activist hedge funds that are well-known in the United States and how they are currently faring in this environment.

Case Study of Activist Hedge Funds:

The best way to study the current landscape of activist investing is to look at the current positions held by activist hedge funds. The study looks at a list of eight of the largest activist hedge funds in the United States that use a primarily domestic approach. Some of these funds use an almost-exclusively activist approach, such as ValueAct Capital Management, Trian Fund Management, Pershing Square Capital Management and Icahn Associates Corporation, while others use a blended approach and use activism when necessary. In order to control for that, only current positions in which activism was used (or currently is being used) were used in the study. Other studies, such as the one conducted by Bebchuk, Brav and Jiang that was referenced above, have looked at the effectiveness of past campaigns, but no studies have been done on the landscape as of the end of 2015. What this study attempts to do is look at what these hedge funds are currently holding and how these positions have fared since the position was initiated. This can hopefully give readers an idea of the effects of current shareholder activism.

The idea of this is that if these activist managers truly believed they were unlocking long-term value in shares, they would be hesitant to sell positions in these stocks. While the case can be made for opportunity cost, one can negate this by pointing out the large increase in capital flowing into the funds. There is a lot of new capital to invest. Every position held by these activist funds and its performance over the given fund's holding period can be found in the appendix. The case studies will focus on one of most notable positions of each fund and the overall performance of the fund.

There are a few important things to note on this study. It is important to note that some potential activist positions may be omitted, but given that results were aggregated and 70 positions were analyzed, the net effect would most likely be negligible. Another important note is at what point the position's return is compared to its sector. The start of the quarter from which it was compared is the same row in which the sector return is listed, and is measured from the time a large stake is initiated, which has been bolded in the "Change" column. This return has been compared to the current share price compared to the cost basis of shares for the fund. One final important thing to note is that weighted average returns are not weighted to consider the holding period of investments, so an investment with a large annualized return that has only been held for one quarter has the same impact as one that has been held for years. This may have an effect on end results, but all positions and their holding periods are listed in the appendix. Also, positions weights were determined by current value, so negative returns have a lesser effect.

Finally, some data or positions may be missing from portfolios that were tracked, as hedge funds are not explicitly required to disclose all positions, which could affect overall performance numbers. All data was compiled using Bloomberg LP and the positions listed were disclosed as of December 31, 2015. An exception to this date is a handful of activist positions that were recently disclosed. The performance of activist positions compared to their sectors and the five-year performance of the funds compared to the S&P 500 index are both as of March 31, 2016. The table of activist hedge funds that are the subject of this case study are shown in on the following page.

Figure 7:

Activist Hedge Fund	Lead Investor	Approximate Fund Size
Corvex Management	Keith Meister	$6.3B
Elliott Management Corporation	Paul Singer	$7.2B
Icahn Associates Corp.	Carl Icahn	$27.7B
JANA Partners	Barry Rosenstein	$6.6B
Pershing Square Capital Management	Bill Ackman	$9.4B
Third Point	Dan Loeb	$9.9B
Trian Fund Management	Nelson Peltz	$12.5B
ValueAct Capital Management	Jeff Ubben	$12.8B

Corvex Management:

Corvex Management is one of the newer activist hedge funds given its size of $6.3 billion. The fund was founded in January 2012 by Keith Meister, who was a protégée of Carl Icahn (Patton, 2015). The fund currently holds five positions in which the group took an activist role, which can all be seen in Appendix A. As can been seen in Appendix B, of the current positions held, three are outperforming the market in their given sector while two are underperforming. While this looks positive, the underperformers make up a larger weight of the portfolio and have a larger loss, which leads to a weighted average excess return of -3.8% in current position. The entire fund has underperformed the S&P 500 by a large amount when looking at one, three and four year annualized returns. Since its inception approximately four years ago, Corvex has trailed the market by about 2.5% on an annual basis.

The most prominent and well-known position is in YUM! Brands Inc., a fast food conglomerate with brands such as Pizza Hut, KFC and Taco Bell. The activist position was initiated in quarter one of 2015 and has a cost basis of $84.38. As of the start of quarter 2 of 2016, Yum had an annualized return of -11.7% while the consumer discretionary sector had grown by an annual rate of 5.0%. In October of 2015, Meister was named as a director with plans to spin off the brand's Chinese division, claiming it could generate an extra $16 per share for Yum. In Meister's opinion, the Chinese market is too focused on company-owned restaurants, which make up more than 75% of all Yum restaurants in China. This compares to 21% company ownership globally (Patton, 2015). Just five days after this story broke on October 15, Yum announced it would be splitting off its China business. With the spinoff, Yum China will become a separately traded entity by the end of 2016. The new company will pay a royalty based off revenues, minimizing Yum Brands' exposure in China while still maintaining a presence in the area (Jargon, 2015). On the day of this announcement, shares were up 1.8%, as investors felt the spin-off would have a net positive effect in the long run. Still, the Chinese restaurants made up just under 17% of all Yum Brand restaurants, and were seen as a large avenue for future growth. In discussing where capital would go, Yum announced it would return "substantial" capital to shareholders and continue to leverage itself up, both of which are common criticisms in the field of activist investing (Jargon, 2015). Investors will have to wait to see what kind of effect Meister's proposition will have on the company in the long-term.

Elliott Capital Management:

Elliott Capital Management is a $7.2 billion fund run by Paul Singer. Currently, Elliott holds twelve positions in which it took an activist role, which can be seen in Appendix C. Of these twelve positions, four have outperformed their sector, seven have underperformed and one is neutral. When the weighted average is taken, Elliott's current positions have returned -5.5% compared to sector returns. Elliot Capital Management has also greatly underperformed the market as a whole, with a five year annualized return trailing the market by almost 8%. With so many activist positions, there are quite a few prominent positions, such as Cabela's, EMC and Alcoa. One familiar position that Elliott has been in for quite some time is Hess.

During the end of 2015, Elliott initiated a position in Hess, and shortly thereafter created a presentation urging shareholders to get behind their proposal. In the company presentation, Elliott describes how they believe Hess is underutilizing its assets by investing in unnecessary and expensive operations, specifically in the Bakken Shale in North Dakota, which Elliot believed should be much more efficient (Elliott, 2013, 5-7). Elliott believed Hess should cut down on diversification and focus on where the money is, which to them was in natural gas (Sider & Warner, 2013). Still, some saw this as a mistake, and Elliott may agree in retrospect, as natural gas prices have stalled as the market continues to be flooded with supply. Oppenheimer analyst Fadel Gheit believed that splitting up a diversified company like Hess would be a mistake in the long run, and was quoted as saying "It makes no sense. It's cutting your nose to spite your face. You don't gain anything by doing that" (Sider & Warner, 2013). The market at the time disagreed, as shares increased over 9% on the announcement. Hess was hesitant to offer the board seats Elliott was asking for, but eventually caved and came to a compromise of three board members. Shares were down 2.8% on the date of the announcement (Helman, 2013). In the three or so years since Elliott first initiated its position, Hess has an annualized return of -5.7% and has trailed the energy sector by approximately 1.4%. This a far cry from the 95%-153% upside projected by Elliott in the company's presentation

(Elliott, 2013). Still, this position should be monitored into the future to see if the value can be unlocked over an extended period of time.

Icahn Associates LP:

Icahn Associates LP is run by one of the most prominent and successful activists of all time, Carl Icahn, and is considered the largest activist hedge fund in the world, with over $27 billion in equity assets. While his historic track record is impressive, recently Icahn has not been seeing the same levels of success. All of Icahn's twenty-one current activist positions can be seen in Appendix E. Of these positions, only five have outperformed their sector, while thirteen have underperformed and three have remained neutral. Of his current positions, Icahn has seen a weighted average excess sector return of -7.9%. Much like the first two activist funds, Carl Icahn has also trailed the market by approximately 3% on an annualized basis over the past five years. While there were numerous companies that could have been looked at in further detail, one interesting case that has not done well at all is Hertz Global Holdings, a well-known rental car company.

Icahn initiated his $1.1 billion position in Hertz during the second quarter of 2014, and just one quarter later managed to claim three seats on the board of directors, which Hertz granted rather than get into a proxy fight with Icahn, and the CEO was quickly replaced, though he had supposedly stepped down for "personal reasons" (De La Merced, 2014). Hertz also agreed to raise its trigger for a poison pill provision from a 10% ownership up to 20%, presumably to allow Icahn to purchase more shares without risk of dilution. Icahn was not the only activist fund involved in Hertz, with both Third Point LLC and JANA Partners also holding stakes in the company (De La Merced, 2014). Since this announcement, shares have greatly underperformed the rest of the Industrial sector, and Icahn's cost basis return has underperformed the sector by almost 42%. Icahn will look to continue to rebuild Hertz while also focusing on other new positions, such as American International Group, which is more commonly known as AIG. It is certainly possible that Icahn is stretching himself too thin and simply has too much capital to allocate.

JANA Partners:

JANA Partners is a $6.6 billion fund run by Barry Rosenstein. JANA has less of an activist presence than most hedge funds on this list, with only four activist positions making up just under 30% of its entire portfolio. These positions can be seen in Appendix G. Of these activist positions, JANA has two that are underperforming in their sectors and two that are outperforming, with a weighted average excess return of -0.4%. The entire fund has actually outperformed the market by over 3% in the past five years on an annualized basis, which may be another piece of evidence that persistent activism is not always the best investment strategy. One position JANA still currently holds that has garnered some attention is Qualcomm. An interesting note about JANA is that it tends to work with management behind the scenes rather than staging public proxy fights (Benoit & Clark, 2015).

Since JANA increased its position in Qualcomm from just over $300 million to just under $2 billion in the last quarter of 2014, shares have seen an annualized return of -17.6%, which trails the sector returns over the same time period by 23.4%. Just three quarters after initiating its position in Qualcomm, JANA sold off over two thirds of its total position. Since there, shares have been relatively flat. In April of 2015, JANA asked management to consider cutting costs, increasing share buybacks and decreasing executive compensation, as well as spinning off its chip unit from its patent-licensing business, its primary source of profits (Benoit & Clark, 2015). Researchers at Arete Research Services claim that this spinoff could have had value, though Qualcomm eventually decided not to proceed with the spinoff. One such example where a spinoff proposed by JANA did not work out was in the oil-and-gas services company Oil States International, a position JANA eventually sold off due to poor performance (Benoit & Clark, 2015).

Pershing Square Capital Management:

Another prominent activist hedge fund, Pershing Square Capital Management, is run by Bill Ackman. The fund is rather large, with $9.4 billion in equity assets. Pershing has a tendency of focusing in on a few companies that Ackman believes have the most potential. Pershing Square's activist positions currently make up approximately 80% of its portfolio, with six total activist positions, which can all be seen in Appendix I. Of these positions, four have outperformed their sectors while two have underperformed. While the outperformers make up almost 77% of the activist positions in weight, Valeant Pharmaceuticals has been a huge drag on Pershing Square's performance due to fears of impending pricing pressures and a recent scandal involving the potential overstatement of revenue (Goldstein & Stevenson, 2016). This severe drop in Valeant's share price compared to Pershing Square's cost basis (73.2%) has led to a weighted average excess return of positions of -3.9%. With Valeant certainly acting as a drain on Ackman, he has seen his fund trail the S&P 500 by about 7% on an annualized basis and fall almost 30% in the past year alone.

Another interesting position for Ackman is his investment in Mondelez International. During the second quarter of 2015, Pershing Square invested over $1.8 billion into Mondelez at a cost basis of $42.78, though this stake was said to be around $5.5 billion when options and forward contracts were taken into account. The investment by Ackman was one of the biggest in the history of shareholder activism. Ackman believed at the time that Mondelez had two choices: grow revenues and severely cut costs or find a buyer (Benoit, Hoffman & Gasparro, 2015). At the time, it was believed that Ackman was counting on an acquisition, which, given the fact that Mondelez had a market capitalization of $75.6 billion, was an aggressive bet. Because of Mondelez's size, one of the only food companies that would be able to acquire it is Kraft Heinz Co. Ironically enough, another activist with a stake in the company, Nelson Peltz of Trian Fund Management (see below) was the one to originally press for the division of Kraft and Mondelez. Still, with Kraft Heinz under new management, there is believed to be room for value in the potential merger (Benoit et al., 2015). Just half a year after initiating the position, Ackman announced he was selling off almost half of his position, but said in a letter to investors, "we are reducing the position size for portfolio management purposes only" (Goldstein & Stevenson, 2016). Mondelez has lost almost 6% since Ackman initiated the position while the Consumer Staples industry has done well, leading to a loss of 21.5% compared to the sector. Some have speculated the Mondelez selloff is due to the large loss in Valeant, though Pershing Square still plans to stay in its position and take a more active role. Both positions should be monitored moving forward (Goldstein & Stevenson, 2016).

Third Point LLC:

Third Point LLC is run by Daniel Loeb and has just under $10 billion in equity assets, with roughly one quarter of the fund's money tied up in activist positions. Of the three positions, one has outperformed its sector and the other two have underperformed. The good news for Third Point is that the position that has outperformed, Baxter International, has outperformed the sector by more than 20% since the activist position was initiated. The other two are smaller positions and have underperformed by around 20-25%. The total weighted average excess sector return for Third Point is 16%, which was the by far the best performance among activists regarding current activist positions, though this may be due to a small sample size and the large return on one heavily weighted position. As a whole, Third Point's selective activism seems to be paying off much like JANA Partners. They have seen a five year annualized return that has outperformed the market by over 2.5%. Though Baxter is a much larger activist position held by Third Point, Sotheby's is also an interesting story.

Loeb initiated a large position in Sotheby's, an auction house of primarily fine art, during the first and second quarters of 2014. During the second quarter of 2014, Loeb was able to get three board seats by coming to an agreement with the company to end his proxy fight and cap the fund's ownership at 15% (Kazakina, 2014). Loeb planned to curtail the company's executive compensation, improve internal operations and strengthen a weakening competitive position. Shareholders were supportive of this announcement, with shares rising 3.2% that day (Kazakina, 2014). This battle did not come without its negatives for shareholders, however. The company stated that it incurred a special charge of $20.1 million during the fight with Loeb (Frank, 2014). This charge has yet to pay dividends for the company, as since Loeb initiated his position, shares have trailed the Consumer Discretionary sector by an annualized return of 25.9% based on Third Point's $41.22 cost basis. As of the end of the first quarter of 2016, shares traded at $26.39.

Trian Fund Management:

Trian Fund Management is a fund with about $12.5 billion in equity assets, run by legendary activist investor Nelson Peltz, who has a reputation of being one of the friendlier activist investors. Of the eight positions that have had activism, Peltz has seen three outperform their sector, four underperform, and one stay on pace with its sector. Due to the weights of each position and the amount of excess return, Trian has seen the currently held activist positions outperform their sectors by a weighted average of 1.5%. All eight positions can be seen in Appendix M. As a whole, the fund has trailed the market over the past five years by almost 2% on an annualized basis. The activist position that has been chosen to focus on is DuPont, which was actually one of Peltz's few unsuccessful campaigns in recent years.

The fund first initiated a position in DuPont back in the first quarter of 2013, though Trian simply held the position until the third quarter of 2014, when it greatly increased its position from around 7 million shares, valued at about $425 million, up to just over 24 million shares, valued just over $1.5 billion. During the third and fourth quarters of 2014, Trian began pushing for a breakup of DuPont, claiming that corporate expenses were much higher than they needed to be and the company had made numerous acquisitions that were not paying off (Gara, 2015). DuPont's CEO, Ellen Kullman, made the case that during her tenure at DuPont, shares had outperformed both the sector and the overall market. Shareholders stood by Kullman and DuPont's management team, and chose not to elect any member of Trian to the board (Gara, 2015). When news of this announcement broke, shares fell 6%, showing that investors continue to value the opinion of activists. Some did criticize Trian for trying to step into a well-run company, which was seen as somewhat unnecessary (Gara, 2015). Since initiating its activist position in DuPont in the third quarter of 2014, the Materials sector has declined by 6.5%. Based on its cost average basis, shares of DuPont have improved by 2.2%, giving Trian an excess sector return of 8.7%. During the third quarter of 2015, Trian sold off about 5.6 million shares, reducing its current stake in DuPont to just under $1.3 billion.

ValueAct Capital Management:

ValueAct Capital Management is also one of the larger players in the activist hedge fund space, with equity assets of around $12.8 billion and a solid track record to go with it. ValueAct is run by Jeffery Ubben and primarily invests in positions where it plans to take an activist role. Currently, the fund holds eleven activist positions, with six outperforming their sectors and five underperforming. The total weighted average excess return for ValueAct is currently 0.9%, with somewhat even distributions on both sides. All of ValueAct's positions can be seen in Appendix O. ValueAct has managed to produce above-market returns for the firm's investors, seeing its five year return outperform the market by almost 6.5% on an annual basis. One interesting position in this fund is Microsoft, as ValueAct made activist history by being the first firm to achieve a board seat on a company with less than a 1% ownership (Ovide, 2013). The firm initiated its position in Microsoft during the fourth quarter of 2012 moving into the first quarter of

2013, though it took about half a year and a lot of persuading other investors for the fund to gain a board seat.

ValueAct was also instrumental in removing Steve Ballmer as CEO, according to many different sources. Ballmer had just recently engineered a reorganization of the company, so for him to “voluntarily” step down was puzzling to many (Ovide, 2013). ValueAct’s president, Mason Morfit, was chosen to sit on the Microsoft board with the promise from ValueAct that they would not begin a proxy contest, seek an extraordinary transaction, or take on more than a 5% stake in Microsoft (Vardi, 2013). Since ValueAct initiated its position, Microsoft has outperformed the Technology sector by 8.6%, demonstrating the value that ValueAct has added (no pun intended), at least in the relative short run. The fund recently sold off about 18.6 million shares, reducing its stake in the company to 56.6 million shares, which currently amounts to a 0.7% stake.

Summary of the Current Landscape:

Figure 8:

Activist Position Cumulative Scorecard

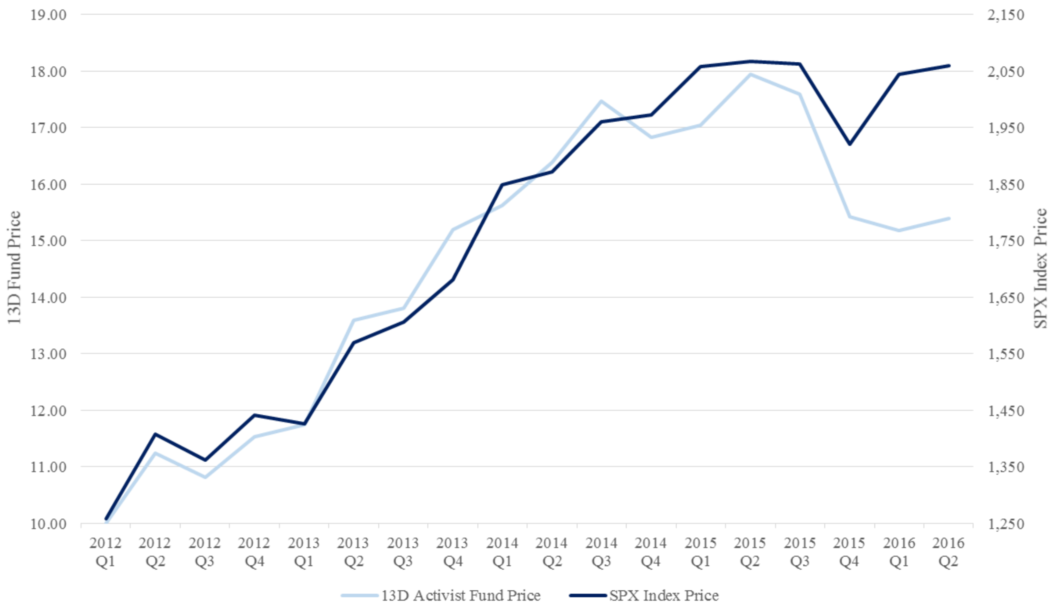
Fund	Outperform	Underperform	Neutral	Total Weighted Activist Return
Corvex Management	3	2	0	-3.8%
Elliot Capital Management	4	7	1	-5.5%
Icahn Associates Corporation	5	13	3	-7.9%
JANA Partners	2	2	0	-0.4%
Pershing Square Capital Management	4	2	0	-3.9%
Third Point LLC	1	2	0	16.0%
Trian Fund Management	3	4	1	1.5%
ValueAct Capital Management	6	5	0	0.9%
Total	**28**	**37**	**5**	**-2.7%***

*weighted by size

As can be seen above in Figure 8, eight of the most prominent hedge funds, when size is accounted for, actually trail their positions’ sector returns on a weighted average basis by 2.7%. Obviously, as was stated before, these managers often sell off positions with gains in order to focus on companies that may struggle in the next few years and attempt to engineer a long-term comeback. Regardless, it is clear managers are underperforming with their current positions, though the best way to analyze the long-term effects would be to revisit these positions twenty or thirty years from now to see the effect these managers have over the very long-term. As was stated in the Delaware Supreme Court paper “The rights and duties of blockholder directors,” an infinite holding period (to perpetuity) should be the formal view for the board of directors on how to approach adding value to the company (Laster & Zeberkiewicz, 2015). Another interesting point is that of these eight firms, only three have outperformed the market over the last five years, and two of those firms are not aggressive activists; that is, they are very selective with their activism targets and do not abuse the system. This seems to be another beacon of proof showing that activism has gone too far.

Since one could dispute the validity of this case study method, another method was considered. A mutual fund called the 13D Activist Fund was constructed on December 29, 2011, and it attempts to track the positions activist hedge funds initiate by monitoring for 13D filings, which signify an activist position (13D Management, 2016). It should be noted that the earlier study includes positions for which a 13D was not filed, as sometimes activism can take more of a passive role and involve simply a board seat being granted voluntarily or discussions between shareholders and the board. Also, a 13D filing is only needed when a shareholder acquires more than 5% of a given publicly traded company. Often times, investors can work in groups to acquire more than 5%, but do not need to file a 13D because they individually do not have more than 5% (Baldwin & Merkley, 2016). Also, a 5% stake is not always needed to take an activist role, which can be seen in various examples above, such as ValueAct's position in Microsoft while only owning less than 1% of shares outstanding. When tracking the performance of the 13D fund and viewing cumulative returns compared to the S&P 500, one can see the fund has clearly underperformed since its inception, according to data compiled from Bloomberg. The results can be seen on the next page in Figure 9. This is just another reason to question how effective current shareholder activism is, and whether its use has become overblown.

Figure 9:



Future Outlook:

In conclusion, it is crucial that we take a look at what shareholder activism has turned into. In a report published by J.P. Morgan on shareholder activism in January of 2015, it was reported that from the start of 2001 until almost the end of 2014, 47% of all activist hedge funds campaign positions were held for under six months and 68% were held for under a year. Only 8% of all campaigns led to hedge funds holding the position for more than three years (Corporate, 2015). For hedge funds that claim to be coming in to unlock long-term value, this seems like an astoundingly low number. It is important to note, as has been mentioned previously in this paper, that not all activism is rooted in short-term profit. Lawrence Fink, CEO of Blackrock, says it best when he explains, “we’re not against activists…we believe they play an important role in the ecosystem, and other times I believe they activate for a short-term profit and may be impairing the company” (Benoit, 2015). There are two sides to the coin.

After researching this topic and thinking critically about potential future legislation, a few ideas to curtail the short-run nature of activism come to mind, though there are obvious drawbacks to some of these suggestions. One would be to simply mandate that any investor who takes an activist position would be required to hold the investment for a certain amount of time, ideally at least three years. The reason for this would be to make managers take a long-term approach rather than coming in and committing financial engineering through the use of share buybacks and dividends. This way, the only reason activists would recommend this course of action is if they truly believed it was the best long-term course of action. Still, a holding period of only three years could result in positive share appreciation without actually adding long-term value, so there is a flaw to this.

Another potential legislative measure that could be put in place is a provision limiting the number of activist positions in which one fund or investor can participate. This way, investors and funds would not be spreading themselves too thin. One downside here is that diversification is a critical aspect of investing, and this provision could severely limit the diversification of assets. An alternative that would not limit diversification would be a rule that limits the percentage of assets activists could have in their funds devoted to activist positions. While this could sound good on the surface, many investors would likely begin making deals behind closed doors, and corruption and unethical behavior could increase as a result.

It is also possible that shareholder activism must be accepted as a part of the markets, as there are positive aspects and it seems very difficult to control. If management and activists can work together to come to agreements that increase long-term shareholder returns, activism could have an extremely positive economic effect. According to McKinsey, activist campaigns in which management and shareholders collaborated led to excess returns compared to combative relationships. Still, a majority of campaigns begin friendly and turn hostile when management does not want to act on some shareholder recommendations. 73% of all campaigns begin friendly, but only 40% end in a friendly manner, showing the stark contrast as time moves on (Cyriac, De Backer & Sanders, 2014).

On March 7, 2016, two senators, Tammy Baldwin and Jeff Merkley, introduced a bill aiming at strengthing oversight among activist hedge funds. In the bill proposal they claim, “Once there, they make demands to benefit themselves at the expense of the company’s long-term interests. The most common demands are for more debt, stock buybacks, reduced R&D, cost-cutting, layoffs, and general reduction any investment in long-term growth” (Baldwin & Merkley, 2016). In their bill, they list three suggestions to curtail this brand of negative activism. One is to shorten the window of disclosure time of initiating an activist position from ten days to two days, as many funds will tip one another off and allow for risk-free returns when the 13D form is eventually filed. Next, the bill attempts to aggregate all funds held by investors, as many individual managers collectively control more than 5% of a company, but their individual single entities might not, so the threshold is not breached and therefore a 13D need not be filed (Baldwin & Merkley, 2016).

Perhaps the most critical suggestion in the bill comes last. According to Baldwin and Merkley, many activists have net short positions in their activist positions, so it is often in their best interest for share prices to decline. Companies are not required to disclose derivative positions in their 13D filings, so it is certainly possible funds can profit from the fall in the price of a stock they have taken an activist role in. This would obviously incentivize the fund to vote against the company's best interest (Baldwin & Merkely, 2016). These suggestions all seem to make sense, though the sway of activists in the political world could make it difficult for the bill to pass, as with such large stakes on the line, funds will stop at nothing to make sure they do not lose control.

When all aspects are considered, it is clear shareholder activism needs an overhaul, though its positive aspects and ability to give shareholders their legal right to a voice cannot be ignored. Still, the negatives of the short-term nature of some activist funds also cannot be overlooked. If we are attempting to answer the original question of what the long term effects of current shareholder activism are, the true answer is we do not know at this time. We can only hypothesize what this short-term investment approach is doing to the long-term stability of these companies in this current landscape, but some type of legislation should be enacted in order to prevent activists who are only concerned with quarterly returns for their funds.

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Appendix Table of Contents:

*Note 1: All data and position sizes as of 3/31/2016 (start of 2016 Q2)
*Note 2: All data compiled from Bloomberg LP
*Note 3: “Total Weighted Average Return” on Activist Scorecards refers to excess sector return, not absolute return

Appendix A – Corvex Management Activist Positions

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Signet Jewelers		2013 Q4	863,254	863,254	74.25	64,096,610
Sector:	7.8%	2014 Q1	5,490,633	**4,627,379**	85.95	471,919,906
Consumer Discretionary		2014 Q2	5,632,411	141,778	102.56	577,660,072
Cost basis:		2014 Q3	5,510,911	(121,500)	110.57	609,341,429
$90.91		2014 Q4	5,510,911	0	119.06	656,129,064
Time Held:		2015 Q1	5,745,911	235,000	123.88	711,803,455
2.50		2015 Q2	5,122,070	(623,841)	133.13	681,901,179
Annualized Return:		2015 Q3	5,052,070	(70,000)	126.40	638,581,648
13.1%		2015 Q4	5,629,153	577,083	132.33	744,905,816
Excess Return vs. Sector:		2016 Q1	5,629,153	0	113.48	638,796,282
5.3%		2016 Q2	5,629,153	0	123.68	696,213,643

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
YUM! Brands		2015 Q1	856,500		74.41	63,732,165
Sector:	5.0%	2015 Q2	15,288,309	**14,431,809**	86.49	1,322,285,845
Consumer Discretionary		2015 Q3	20,040,195	4,751,886	82.51	1,653,516,489
Cost basis:		2016 Q1	21,040,195	1,000,000	71.30	1,500,165,904
$84.38		2016 Q2	21,040,195	0	72.24	1,519,943,687
Annualized Return:						
-11.7%						
Time Held:						
1.25						
Excess Return vs. Sector:						
-16.7%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Williams Companies		2012 Q1	150,700		23.52	3,544,464
Sector:		2012 Q2	0	(150,700)	24.97	-
Energy		2012 Q3	1,136,075	1,136,075	26.29	29,867,412
Cost basis:		2012 Q4	3,561,475	2,425,400	27.58	98,225,481
$33.27		2013 Q1	5,832,466	2,270,991	29.05	169,433,137
Annualized Return:		2013 Q2	12,153,266	6,320,800	30.17	366,664,035
-16.1%		2013 Q3	13,603,266	1,450,000	30.04	408,642,111
Time Held:		2013 Q4	13,603,266	0	31.05	422,381,409
4.25	-14.7%	2014 Q1	41,682,960	**28,079,694**	35.25	1,469,324,340
Excess Return vs. Sector:		2014 Q2	41,682,960	0	43.69	1,821,128,522
-1.4%		2014 Q3	41,682,960	0	50.87	2,120,412,175
		2014 Q4	41,682,960	0	44.75	1,865,312,460
		2015 Q1	41,682,960	0	41.83	1,743,598,217
		2015 Q2	41,682,960	0	49.73	2,072,893,601
		2015 Q3	41,682,960	0	44.82	1,868,230,267
		2015 Q4	41,682,960	0	30.99	1,291,754,930
		2016 Q1	41,682,960	0	16.22	676,097,611
		2016 Q2	41,682,960	0	15.78	657,757,109

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
FNF Group	0.4%	2014 Q2	18,285,547	**18,285,547**	26.54	485,298,417
Sector:		2014 Q3	20,241,370	1,955,823	26.75	541,456,648
Financials		2014 Q4	20,241,370	0	29.54	597,930,070
Cost basis:		2015 Q1	20,241,370	0	35.39	716,342,084
$26.64		2015 Q2	20,403,470	162,100	36.37	742,074,204
Annualized Return:		2015 Q3	19,366,915	(1,036,555)	37.00	716,575,855
9.8%		2015 Q4	18,877,033	(489,882)	34.60	653,145,342
Time Held:		2016 Q1	18,877,033	0	32.09	605,763,989
2.00		2016 Q2	18,877,033	0	32.09	605,763,989
Excess Return vs. Sector:						
9.4%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Vereit Inc		2014 Q4	8,010,400	8,010,400	8.72	69,850,688
Sector:	-7.3%	2015 Q1	70,644,429	**62,634,029**	9.11	643,570,748
Financials		2015 Q2	72,846,529	2,202,100	8.62	627,937,080
Cost basis:		2015 Q3	80,608,053	7,761,524	7.94	640,027,941
$8.94		2015 Q4	79,919,153	(688,900)	7.91	632,160,500
Annualized Return:		2016 Q1	44,360,189	(35,558,964)	7.82	346,896,678
-1.3%		2016 Q2	44,360,189	0	8.77	389,038,858
Time Held:						
1.50						
Excess Return vs. Sector:						
6.0%						

Appendix B – Corvex Management Activist Scorecard

Activist Position Scorecard				
Fund:	**Corvex Management**			
	Number of Positions	Weigthed Average Return	Current Weight	Total Weighted Activist Return
Current Activist Positions:	5			**-3.8%**
Outperform:	3	6.9%	43.7%	3.0%
Underperform:	2	-12.1%	56.3%	-6.8%
Neutral*:	0	0.0%	0.0%	0.0%

**within 1% of Sector Return*

Appendix C – Elliot Capital Management Activist Positions

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Cabela's	13.5%	2015 Q4	4,165,000	**4,165,000**	41.44	172,597,600
Sector:		2016 Q1	6,046,496	1,881,496	44.63	269,855,116
Consumer Discretionary		2016 Q2	6,046,496	0	48.89	295,613,189
Cost basis:						
$42.44						
Annualized Return:						
32.7%						
Time Held:						
0.50						
Excess Return vs. Sector:						
19.2%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Interpublic Group		2014 Q2	3,170,000	3,170,000	17.51	55,506,700
Sector:	10.2%	2014 Q3	19,682,326	**16,512,326**	18.70	368,059,496
Consumer Discretionary		2014 Q4	19,682,326	0	18.09	356,053,277
Cost basis:		2015 Q1	19,682,326	0	20.51	403,684,506
$18.54		2015 Q2	20,015,326	333,000	20.30	406,311,118
Annualized Return:		2015 Q3	20,015,326	0	19.57	391,699,930
11.0%		2015 Q4	20,015,326	0	22.02	440,737,479
Time Held:		2016 Q1	15,561,426	(4,453,900)	21.49	334,415,045
2.00		2016 Q2	15,561,426	0	22.84	355,422,970
Excess Return vs. Sector:						
0.8%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Hess Corporation		2012 Q4	1,213,500	1,213,500	49.69	60,298,815
Sector:	-4.3%	2013 Q1	15,000,000	**13,786,500**	62.49	937,350,000
Energy		2013 Q2	16,650,000	1,650,000	66.20	1,102,230,000
Cost basis:		2013 Q3	17,095,000	445,000	71.71	1,225,882,450
$63.30		2013 Q4	17,095,000	0	78.23	1,337,341,850
Annualized Return:		2014 Q1	17,300,000	205,000	76.68	1,326,564,000
-5.7%		2014 Q2	17,300,000	0	87.30	1,510,290,000
Time Held:		2014 Q3	17,800,000	500,000	96.18	1,712,004,000
3.50		2014 Q4	17,800,000	0	76.39	1,359,742,000
Excess Return vs. Sector:		2015 Q1	17,800,000	0	69.52	1,237,456,000
-1.4%		2015 Q2	17,800,000	0	69.80	1,242,440,000
		2015 Q3	17,800,000	0	56.34	1,002,852,000
		2015 Q4	17,800,000	0	55.83	993,774,000
		2016 Q1	17,800,000	0	42.21	751,338,000
		2016 Q2	17,800,000	0	51.60	918,480,000

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
American Capital	-1.4%	2015 Q4	12,225,000	**12,225,000**	13.78	168,460,500
Sector:		2016 Q1	12,475,000	250,000	13.91	173,527,250
Financials		2016 Q2	12,475,000	0	15.40	192,115,000
Cost basis:						
$13.78						
Annualized Return:						
24.9%						
Time Held:						
0.50						
Excess Return vs. Sector:						
26.3%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
National Bank Holdings	12.2%	2012 Q3	3,825,543	**3,825,543**	19.14	73,220,893
Sector:		2012 Q4	3,812,500	(13,043)	17.92	68,320,000
Financials		2013 Q1	3,812,500	0	17.91	68,281,875
Cost basis:		2013 Q2	3,812,500	0	18.16	69,235,000
$19.14		2013 Q3	3,812,500	0	19.53	74,458,125
Annualized Return:		2013 Q4	3,610,436	(202,064)	20.37	73,544,581
1.7%		2014 Q1	3,610,436	0	19.70	71,125,589
Time Held:		2014 Q2	3,610,436	0	19.26	69,536,997
3.75		2014 Q3	3,610,436	0	19.52	70,475,711
Excess Return vs. Sector:		2014 Q4	3,610,436	0	18.99	68,562,180
-10.5%		2015 Q1	3,610,436	0	18.21	65,746,040
		2015 Q2	3,360,436	(250,000)	19.43	65,293,271
		2015 Q3	3,102,835	(257,601)	20.71	64,259,713
		2015 Q4	3,102,835	0	21.37	66,307,584
		2016 Q1	3,102,835	0	19.72	61,187,906
		2016 Q2	3,102,835	0	20.39	63,266,806

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Opus Bank	0.4%	2014 Q2	5,301,279	**5,301,279**	29.35	155,592,539
Sector:		2014 Q3	5,301,279	0	29.82	158,084,140
Financials		2014 Q4	5,301,279	0	27.33	144,883,955
Cost basis:		2015 Q1	5,301,279	0	28.17	149,337,029
$29.35		2015 Q2	5,301,279	0	32.83	174,040,990
Annualized Return:		2015 Q3	5,301,279	0	37.26	197,525,656
8.0%		2015 Q4	5,051,279	(250,000)	37.24	188,109,630
Time Held:		2016 Q1	5,051,279	0	32.73	165,328,362
2.00		2016 Q2	5,051,279	0	34.21	172,804,255
Excess Return vs. Sector:						
7.6%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Vereit Inc		2014 Q4	8,010,400	8,010,400	8.72	69,850,688
Sector:	-7.3%	2015 Q1	70,644,429	**62,634,029**	9.11	643,570,748
Financials		2015 Q2	72,846,529	2,202,100	8.62	627,937,080
Cost basis:		2015 Q3	80,608,053	7,761,524	7.94	640,027,941
$8.94		2015 Q4	79,919,153	(688,900)	7.91	632,160,500
Annualized Return:		2016 Q1	44,360,189	(35,558,964)	7.82	346,896,678
-1.4%		2016 Q2	8,801,225	0	8.75	77,010,719
Time Held:						
1.50						
Excess Return vs. Sector:						
5.9%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Mitel Networks		2015 Q1	2,673,602	2,673,602	9.81	26,228,036
Sector:		2015 Q2	3,288,545	614,943	9.30	30,583,469
Information Technology	9.6%	2015 Q3	11,372,874	**8,084,329**	8.09	92,006,551
Cost basis:		2015 Q4	11,548,871	175,997	8.09	93,430,366
$8.55		2016 Q1	11,548,871	0	7.14	82,458,939
Annualized Return:		2016 Q2	11,548,871	0	8.03	92,737,434
-4.9%						
Time Held:						
1.25						
Excess Return vs. Sector:						
-14.5%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
CDK	5.8%	2015 Q1	2,590,000	**2,590,000**	44.79	116,006,100
Sector:		2015 Q2	6,594,215	4,004,215	51.16	337,360,039
Information Technology		2015 Q3	7,936,315	1,342,100	50.16	398,085,560
Cost basis:		2015 Q4	8,045,794	109,479	48.19	387,726,813
$48.90		2016 Q1	8,045,794	0	44.09	354,739,057
Annualized Return:		2016 Q2	8,045,794	0	46.23	371,957,057
-4.4%						
Time Held:						
1.25						
Excess Return vs. Sector:						
-10.2%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
EMC		2014 Q2	2,365,000	2,365,000	25.45	60,189,250
Sector:	8.7%	2014 Q3	33,500,000	**31,135,000**	28.03	939,005,000
Information Technology		2014 Q4	33,500,000	0	28.17	943,695,000
Cost basis:		2015 Q1	33,500,000	0	26.71	894,785,000
$27.49		2015 Q2	33,600,000	100,000	26.14	878,304,000
Annualized Return:		2015 Q3	34,000,000	400,000	24.86	845,240,000
-1.7%		2015 Q4	42,231,000	8,231,000	26.20	1,106,452,200
Time Held:		2016 Q1	42,231,000	0	24.98	1,054,930,380
2.00		2016 Q2	42,231,000	0	26.56	1,121,655,360
Excess Return vs. Sector:						
-10.4%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Polycom	9.6%	2015 Q3	7,320,814	**7,320,814**	10.94	80,089,705
Sector:		2015 Q4	8,850,892	1,530,078	12.95	114,619,051
Information Technology		2016 Q1	8,850,892	0	10.49	92,845,857
Cost basis:		2016 Q2	8,850,892	0	11.00	97,359,812
$11.29						
Annualized Return:						
-3.4%						
Time Held:						
0.75						
Excess Return vs. Sector:						
-13.1%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Alcoa	26.0%	2015 Q4	67,100,000	**67,100,000**	9.28	622,688,000
Sector:		2016 Q1	77,600,000	10,500,000	8.28	642,528,000
Materials		2016 Q2	77,600,000	0	9.50	737,200,000
Cost basis:						
$9.14						
Annualized Return:						
8.0%						
Time Held:						
0.50						
Excess Return vs. Sector:						
-18.0%						

Appendix D – Elliot Capital Management Activist Scorecard

Activist Position Scorecard				
Fund:	**Elliot Capital Mangement**			
	Number of Positions	Weigthed Average Return	Current Weight	Total Weighted Activist Return
Current Activist Positions:	12			**-5.5%**
Outperform:	4	11.4%	16.4%	1.9%
Underperform:	7	-9.8%	75.7%	-7.4%
Neutral*:	1	0.8%	7.9%	0.1%

**within 1% of Sector Return*

Appendix E – Icahn Associates Corporation Activist Positions

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Federal-Mogul Holdings	9.4%	2007 Q4	25,141,924	**25,141,924**	29.50	741,686,758
Sector:		2008 Q1	75,241,924	50,100,000	20.16	1,516,877,188
Consumer Discretionary		2008 Q2	75,241,924	0	18.90	1,422,072,364
Cost basis:		2008 Q3	75,241,924	0	15.01	1,129,381,279
$19.37		2008 Q4	75,241,924	0	5.79	435,650,740
Annualized Return:		2009 Q1	75,241,924	0	5.07	381,476,555
-7.9%		2009 Q2	75,241,924	0	9.65	726,084,567
Time Held:		2009 Q3	75,241,924	0	12.12	911,932,119
8.50		2009 Q4	75,241,924	0	13.87	1,043,605,486
Excess Return vs. Sector:		2010 Q1	75,241,924	0	17.94	1,349,840,117
-17.3%		2010 Q2	75,241,924	0	17.44	1,312,219,155
		2010 Q3	75,241,924	0	16.70	1,256,540,131
		2010 Q4	75,241,924	0	19.97	1,502,581,222
		2011 Q1	75,241,924	0	23.20	1,745,612,637
		2011 Q2	75,241,924	0	23.51	1,768,937,633
		2011 Q3	75,980,915	738,991	17.32	1,315,989,448
		2011 Q4	76,385,255	404,340	15.44	1,179,388,337
		2012 Q1	76,385,255	0	16.82	1,284,799,989
		2012 Q2	76,385,255	0	12.77	975,439,706
		2012 Q3	76,697,804	312,549	9.98	765,444,084
		2012 Q4	76,697,804	0	8.00	613,582,432
		2013 Q1	76,697,804	0	7.78	596,708,915
		2013 Q2	76,697,804	0	8.27	634,290,839
		2013 Q3	121,111,976	44,414,172	15.08	1,826,368,598
		2013 Q4	121,111,976	0	19.00	2,301,127,544
		2014 Q1	121,111,976	0	18.70	2,264,793,951
		2014 Q2	121,111,976	0	18.04	2,184,860,047
		2014 Q3	121,111,976	0	17.28	2,092,814,945
		2014 Q4	121,111,976	0	15.30	1,853,013,233
		2015 Q1	138,590,141	17,478,165	13.81	1,913,929,847
		2015 Q2	138,590,141	0	12.65	1,753,165,284
		2015 Q3	138,590,141	0	9.30	1,288,888,311
		2015 Q4	138,590,141	0	7.69	1,065,758,184
		2016 Q1	138,590,141	0	6.95	963,201,480
		2016 Q2	138,590,141	0	9.66	1,338,780,762

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Gannett Co	5.0%	2015 Q2	7,483,683	**7,483,683**	13.86	103,723,846
Sector:		2015 Q3	7,483,683	0	12.52	93,695,711
Consumer Discretionary		2015 Q4	6,502,574	(981,109)	15.71	102,155,438
Cost basis:		2016 Q1	5,379,063	(1,123,511)	14.95	80,416,992
$13.86		2016 Q2	5,379,063	0	14.99	80,632,154
Annualized Return:						
8.2%						
Time Held:						
1.00						
Excess Return vs. Sector:						
3.2%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Tegna		2014 Q2	2,734,888	2,734,888	21.45	58,663,348
Sector:	10.2%	2014 Q3	14,967,373	**12,232,485**	25.19	377,028,126
Consumer Discretionary		2014 Q4	14,967,373	0	23.39	350,086,854
Cost basis:		2015 Q1	14,967,373	0	26.15	391,396,804
$24.51		2015 Q2	14,967,373	0	28.35	424,325,025
Annualized Return:		2015 Q3	14,967,373	0	26.32	393,941,257
-4.0%		2015 Q4	12,771,865	(2,195,508)	25.95	331,429,897
Time Held:		2016 Q1	10,711,599	(2,060,266)	23.54	252,151,040
2.00		2016 Q2	10,711,599	0	22.57	241,760,789
Excess Return vs. Sector:						
-14.2%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Cheniere Energy		2015 Q2	1,075,000	1,075,000	74.16	79,722,000
Sector:	-22.8%	2015 Q3	28,546,241	**27,471,241**	60.08	1,715,058,159
Energy		2015 Q4	32,680,490	4,134,249	44.93	1,468,334,416
Cost basis:		2016 Q1	32,680,490	0	31.64	1,034,010,704
$58.62		2016 Q2	32,680,490	0	33.53	1,095,776,830
Annualized Return:						
-42.8%						
Time Held:						
1.00						
Excess Return vs. Sector:						
-20.0%						

Position Information		Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Chesapeake Energy			2011 Q2	5,220,156	5,220,156	27.43	143,188,879
Sector:			2011 Q3	5,220,156	0	27.54	143,763,096
	Energy		2011 Q4	5,220,156	0	22.80	119,019,557
Cost basis:			2012 Q1	5,220,156	0	20.72	108,161,632
	$17.26	-3.6%	2012 Q2	50,085,202	**44,865,046**	15.49	775,819,779
Annualized Return:			2012 Q3	50,085,202	0	17.20	861,465,474
	-25.5%		2012 Q4	59,698,689	9,613,487	16.49	984,431,382
Time Held:			2013 Q1	59,698,689	0	17.83	1,064,427,625
	5.00		2013 Q2	59,698,689	0	18.71	1,116,962,471
Excess Return vs. Sector:			2013 Q3	66,450,000	6,751,311	22.70	1,508,415,000
	-21.9%		2013 Q4	66,450,000	0	24.76	1,645,302,000
			2014 Q1	66,450,000	0	23.76	1,578,852,000
			2014 Q2	66,450,000	0	26.69	1,773,550,500
			2014 Q3	66,450,000	0	25.94	1,723,713,000
			2014 Q4	66,450,000	0	20.18	1,340,961,000
			2015 Q1	73,050,000	6,600,000	16.75	1,223,587,500
			2015 Q2	73,050,000	0	14.10	1,030,005,000
			2015 Q3	73,050,000	0	8.49	620,194,500
			2015 Q4	73,050,000	0	6.05	441,952,500
			2016 Q1	73,050,000	0	3.66	267,363,000
			2016 Q2	73,050,000	0	3.96	289,278,000

Position Information		Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
CVR Energy			2011 Q4	3,829,939	3,829,939	17.66	67,636,723
Sector:			2012 Q1	12,584,227	8,754,288	21.19	266,659,770
	Energy	-3.6%	2012 Q2	71,198,718	**58,614,491**	24.08	1,714,465,129
Cost basis:			2012 Q3	71,198,718	0	25.68	1,828,383,078
	$23.38		2012 Q4	71,198,718	0	35.32	2,514,738,720
Annualized Return:			2013 Q1	71,198,718	0	45.17	3,216,046,092
	1.4%		2013 Q2	71,198,718	0	46.71	3,325,692,118
Time Held:			2013 Q3	71,198,718	0	37.29	2,655,000,194
	4.50		2013 Q4	71,198,718	0	33.44	2,380,885,130
Excess Return vs. Sector:			2014 Q1	71,198,718	0	34.91	2,485,547,245
	5.1%		2014 Q2	71,198,718	0	42.20	3,004,585,900
			2014 Q3	71,198,718	0	43.84	3,121,351,797
			2014 Q4	71,198,718	0	40.80	2,904,907,694
			2015 Q1	71,198,718	0	36.99	2,633,640,579
			2015 Q2	71,198,718	0	37.58	2,675,647,822
			2015 Q3	71,198,718	0	38.10	2,712,671,156
			2015 Q4	71,198,718	0	41.97	2,988,210,194
			2016 Q1	71,198,718	0	27.79	1,978,612,373
			2016 Q2	71,198,718	0	24.94	1,775,696,027

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
CVR Refining LP	-4.3%	2013 Q1	4,000,000	**4,000,000**	19.58	78,320,000
Sector:		2013 Q2	6,000,000	2,000,000	21.95	131,700,000
Energy		2013 Q3	6,000,000	0	19.90	119,400,000
Cost basis:		2013 Q4	6,000,000	0	17.33	103,980,000
$20.37		2014 Q1	6,000,000	0	17.11	102,660,000
Annualized Return:		2014 Q2	6,000,000	0	20.60	123,600,000
6.5%		2014 Q3	6,000,000	0	20.42	122,520,000
Time Held:		2014 Q4	6,000,000	0	18.19	109,140,000
3.25		2015 Q1	6,000,000	0	15.28	91,680,000
Excess Return vs. Sector:		2015 Q2	6,000,000	0	18.17	109,020,000
10.8%		2015 Q3	6,000,000	0	18.15	108,900,000
		2015 Q4	6,000,000	0	20.33	121,980,000
		2016 Q1	6,000,000	0	13.64	81,840,000
		2016 Q2	6,000,000	0	25.00	150,000,000

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Transocean		2012 Q4	5,838,386	5,838,386	39.08	228,164,125
Sector:	-4.3%	2013 Q1	20,154,035	**14,315,649**	45.45	916,000,891
Energy		2013 Q2	21,477,900	1,323,865	43.23	928,489,617
Cost basis:		2013 Q3	21,477,900	0	40.49	869,640,171
$43.58		2013 Q4	21,477,900	0	42.81	919,468,899
Annualized Return:		2014 Q1	21,477,900	0	37.77	811,220,283
-37.1%		2014 Q2	21,477,900	0	37.80	811,864,620
Time Held:		2014 Q3	21,477,900	0	34.64	743,994,456
3.50		2014 Q4	21,477,900	0	22.31	479,171,949
Excess Return vs. Sector:		2015 Q1	21,477,900	0	15.62	335,484,798
-32.8%		2015 Q2	21,477,900	0	17.90	384,454,410
		2015 Q3	21,477,900	0	13.71	294,462,009
		2015 Q4	21,477,900	0	14.61	313,792,119
		2016 Q1	21,477,900	0	10.03	215,423,337
		2016 Q2	21,477,900	0	8.59	184,495,161

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
AIG		2015 Q3	1,361,326	1,361,326	59.92	81,570,654
Sector:	-1.4%	2015 Q4	42,244,071	**40,882,745**	60.34	2,549,007,244
Financials		2016 Q1	42,244,071	0	53.78	2,271,886,138
Cost basis:		2016 Q2	42,244,071	0	54.32	2,294,697,937
$60.33						
Annualized Return:						
-13.1%						
Time Held:						
0.75						
Excess Return vs. Sector:						
-11.6%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Enzon Pharmaceuticals		2008 Q1	614,420	614,420	8.71	5,351,598
Sector:		2008 Q2	614,420	0	8.77	5,388,463
Health Care		2008 Q3	614,420	0	8.29	5,093,542
Cost basis:		2008 Q4	614,420	0	4.90	3,010,658
$8.87		2009 Q1	704,214	89,794	6.17	4,345,000
Annualized Return:		2009 Q2	704,214	0	7.05	4,964,709
-30.0%		2009 Q3	704,214	0	7.91	5,570,333
Time Held:		2009 Q4	704,214	0	9.39	6,612,569
8.25		2010 Q1	704,214	0	9.88	6,957,634
Excess Return vs. Sector:		2010 Q2	704,214	0	10.69	7,528,048
-44.5%		2010 Q3	704,214	0	10.73	7,556,216
		2010 Q4	1,180,972	476,758	11.37	13,427,652
		2011 Q1	1,180,972	0	10.95	12,931,643
		2011 Q2	1,180,972	0	10.76	12,707,259
	14.6%	2011 Q3	5,904,863	**4,723,891**	8.69	51,313,259
		2011 Q4	5,904,863	0	6.93	40,920,701
		2012 Q1	5,904,863	0	7.07	41,747,381
		2012 Q2	5,904,863	0	6.52	38,499,707
		2012 Q3	5,904,863	0	6.82	40,271,166
		2012 Q4	5,904,863	0	5.95	35,133,935
		2013 Q1	5,904,863	0	4.52	26,689,981
		2013 Q2	5,904,863	0	2.81	16,592,665
		2013 Q3	5,904,863	0	1.84	10,864,948
		2013 Q4	5,904,863	0	1.43	8,443,954
		2014 Q1	5,904,863	0	1.06	6,259,155
		2014 Q2	5,904,863	0	1.00	5,904,863
		2014 Q3	5,904,863	0	1.37	8,089,662
		2014 Q4	5,904,863	0	1.03	6,082,009
		2015 Q1	5,904,863	0	1.05	6,200,106
		2015 Q2	5,904,863	0	1.46	8,621,100
		2015 Q3	5,904,863	0	1.38	8,148,711
		2015 Q4	5,904,863	0	0.82	4,841,988
		2016 Q1	5,904,863	0	0.50	2,952,432
		2016 Q2	5,904,863	0	0.47	2,775,286

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Hologic	12.4%	2013 Q4	34,154,879	**34,154,879**	21.66	739,794,679
Sector:		2014 Q1	34,154,879	0	21.48	733,646,801
Health Care		2014 Q2	34,154,879	0	23.24	793,759,388
Cost basis:		2014 Q3	34,154,879	0	25.25	862,410,695
$21.66		2014 Q4	34,154,879	0	25.38	866,850,829
Annualized Return:		2015 Q1	34,154,879	0	30.45	1,040,016,066
20.7%		2015 Q2	34,154,879	0	35.19	1,201,910,192
Time Held:		2015 Q3	28,154,879	(6,000,000)	39.70	1,117,748,696
2.50		2015 Q4	28,154,879	0	38.74	1,090,720,012
Excess Return vs. Sector:		2016 Q1	19,171,287	(8,983,592)	34.68	664,860,233
8.3%		2016 Q2	19,171,287	0	34.65	664,285,095

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
American Railcar Industries	5.7%	2006 Q1	6,109,894	**6,109,894**	24.13	147,431,742
Sector:		2006 Q2	6,109,894	0	29.76	181,830,445
Industrials		2006 Q3	6,109,894	0	25.31	154,641,417
Cost basis:		2006 Q4	6,109,894	0	27.67	169,060,767
$21.66		2007 Q1	6,109,894	0	26.28	160,568,014
Annualized Return:		2007 Q2	6,109,894	0	32.97	201,443,205
6.0%		2007 Q3	6,109,894	0	24.98	152,625,152
Time Held:		2007 Q4	6,526,980	417,086	16.00	104,431,680
10.25		2008 Q1	6,526,980	0	18.33	119,639,543
Excess Return vs. Sector:		2008 Q2	6,526,980	0	17.94	117,094,021
0.3%		2008 Q3	6,526,980	0	16.07	104,888,569
		2008 Q4	6,526,980	0	8.46	55,218,251
		2009 Q1	11,564,145	5,037,165	7.88	91,125,463
		2009 Q2	11,564,145	0	7.31	84,533,900
		2009 Q3	11,564,145	0	8.62	99,682,930
		2009 Q4	11,564,145	0	9.80	113,328,621
		2010 Q1	11,564,145	0	9.72	112,403,489
		2010 Q2	11,564,145	0	13.59	157,156,731
		2010 Q3	11,564,145	0	11.28	130,443,556
		2010 Q4	11,564,145	0	16.31	188,611,205
		2011 Q1	11,564,145	0	19.24	222,494,150
		2011 Q2	11,564,145	0	21.43	247,819,627
		2011 Q3	11,810,598	246,453	16.78	198,181,834
		2011 Q4	11,848,898	38,300	19.78	234,371,202
		2012 Q1	11,848,898	0	24.73	293,023,248
		2012 Q2	11,871,268	22,370	21.65	257,012,952
		2012 Q3	11,871,268	0	26.30	312,214,348
		2012 Q4	11,871,268	0	27.84	330,496,101
		2013 Q1	11,871,268	0	37.58	446,122,251
		2013 Q2	11,871,268	0	32.96	391,276,993
		2013 Q3	11,871,268	0	32.66	387,715,613
		2013 Q4	11,871,268	0	39.63	470,458,351
		2014 Q1	11,871,268	0	54.51	647,102,819
		2014 Q2	11,871,268	0	59.92	711,326,379
		2014 Q3	11,871,268	0	69.21	821,610,458
		2014 Q4	11,871,268	0	58.58	695,418,879
		2015 Q1	11,871,268	0	49.75	590,595,583
		2015 Q2	11,871,268	0	51.53	611,726,440
		2015 Q3	11,871,268	0	39.96	474,375,869
		2015 Q4	11,871,268	0	47.84	567,921,461
		2016 Q1	11,871,268	0	41.00	486,721,988
		2016 Q2	11,871,268	0	39.38	467,490,534

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Hertz Global Holdings	1.5%	2014 Q3	38,800,000	**38,800,000**	28.56	1,108,128,000
Sector:		2014 Q4	51,922,405	13,122,405	22.33	1,159,427,304
Industrials		2015 Q1	51,922,405	0	22.26	1,155,792,735
Cost basis:		2015 Q2	51,922,405	0	20.48	1,063,370,854
$25.06		2015 Q3	51,922,405	0	17.54	910,718,984
Annualized Return:		2015 Q4	63,709,083	11,786,678	16.58	1,056,296,596
-40.3%		2016 Q1	63,709,083	0	9.70	617,978,105
Time Held:		2016 Q2	63,709,083	0	10.17	647,921,374
1.75						
Excess Return vs. Sector:						
-41.8%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Manitowoc Company	2.9%	2014 Q4	4,492,631	**4,492,631**	4.19	18,824,124
Sector:		2015 Q1	10,582,660	6,090,029	4.32	45,717,091
Industrials		2015 Q2	10,582,660	0	4.23	44,764,652
Cost basis:		2015 Q3	10,582,660	0	3.56	37,674,270
$4.27		2015 Q4	10,582,660	0	3.24	34,287,818
Annualized Return:		2016 Q1	10,582,660	0	3.49	36,933,483
0.3%		2016 Q2	10,582,660	0	4.29	45,399,611
Time Held:						
1.50						
Excess Return vs. Sector:						
-2.6%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Navistar International		2011 Q3	1,765,647	1,765,647	42.87	75,693,287
Sector:	15.3%	2011 Q4	7,251,426	**5,485,779**	38.08	276,134,302
Industrials		2012 Q1	7,251,426	0	42.01	304,632,406
Cost basis:		2012 Q2	8,167,903	916,477	28.88	235,889,039
$33.79		2012 Q3	10,250,500	2,082,597	23.81	244,064,405
Annualized Return:		2012 Q4	11,845,167	1,594,667	20.48	242,589,020
-19.4%		2013 Q1	11,845,167	0	28.91	342,443,778
Time Held:		2013 Q2	11,845,167	0	32.18	381,177,474
4.75		2013 Q3	13,309,735	1,464,568	33.70	448,538,070
Excess Return vs. Sector:		2013 Q4	13,309,735	0	38.17	508,032,585
-34.7%		2014 Q1	13,309,735	0	34.80	463,178,778
		2014 Q2	14,337,524	1,027,789	35.28	505,827,847
		2014 Q3	16,120,289	1,782,765	36.95	595,644,679
		2014 Q4	16,272,524	152,235	33.47	544,641,378
		2015 Q1	16,272,524	0	29.70	483,293,963
		2015 Q2	16,272,524	0	26.29	427,804,656
		2015 Q3	16,272,524	0	17.32	281,840,116
		2015 Q4	16,272,524	0	11.57	188,273,103
		2016 Q1	16,272,524	0	8.95	145,639,090
		2016 Q2	16,272,524	0	12.11	197,060,266

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Mentor Graphics		2010 Q2	1,553,764	1,553,764	8.74	13,579,897
Sector:		2010 Q3	3,224,057	1,670,293	9.41	30,338,376
Information Technology		2010 Q4	3,224,057	0	10.91	35,174,462
Cost basis:		2011 Q1	3,224,057	0	14.04	45,265,760
$10.06		2011 Q2	3,224,057	0	13.36	43,073,402
Annualized Return:	12.2%	2011 Q3	16,120,289	**12,896,232**	10.30	166,038,977
12.5%		2011 Q4	16,120,289	0	11.33	182,642,874
Time Held:		2012 Q1	16,120,289	0	14.18	228,585,698
6.00		2012 Q2	16,120,289	0	13.85	223,266,003
Excess Return vs. Sector:		2012 Q3	16,120,289	0	15.37	247,768,842
0.3%		2012 Q4	16,120,289	0	15.17	244,544,784
		2013 Q1	16,120,289	0	16.46	265,339,957
		2013 Q2	16,120,289	0	17.87	288,069,564
		2013 Q3	16,120,289	0	21.01	338,687,272
		2013 Q4	16,120,289	0	22.14	356,903,198
		2014 Q1	16,120,289	0	21.16	341,105,315
		2014 Q2	16,120,289	0	20.72	334,012,388
		2014 Q3	16,120,289	0	21.13	340,621,707
		2014 Q4	16,120,289	0	20.68	333,367,577
		2015 Q1	16,120,289	0	23.19	373,829,502
		2015 Q2	16,120,289	0	25.38	409,132,935
		2015 Q3	16,120,289	0	25.32	408,165,717
		2015 Q4	16,120,289	0	20.27	326,758,258
		2016 Q1	5,489,034	(10,631,255)	18.43	101,162,897
		2016 Q2	5,489,034	0	20.38	111,866,513

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Nuance Communications		2013 Q1	3,812,000	3,812,000	20.23	77,116,760
Sector:	13.6%	2013 Q2	31,547,631	**27,735,631**	19.63	619,279,997
Information Technology		2013 Q3	52,437,750	20,890,119	19.09	1,001,036,648
Cost basis:		2013 Q4	60,784,623	8,346,873	15.32	931,220,424
$18.89		2014 Q1	60,784,623	0	15.60	948,240,119
Annualized Return:		2014 Q2	60,784,623	0	16.98	1,032,122,899
-0.3%		2014 Q3	60,784,623	0	17.14	1,041,848,438
Time Held:		2014 Q4	60,784,623	0	14.80	899,612,420
3.25		2015 Q1	60,784,623	0	13.89	844,298,413
Excess Return vs. Sector:		2015 Q2	60,784,623	0	16.38	995,652,125
-13.8%		2015 Q3	60,784,623	0	17.37	1,055,828,902
		2015 Q4	60,784,623	0	19.39	1,178,613,840
		2016 Q1	30,068,833	(30,715,790)	18.52	556,874,787
		2016 Q2	30,068,833	0	18.73	563,189,242

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
eBay	10.3%	2014 Q1	27,803,015	**27,803,015**	23.14	643,361,767
Sector:		2014 Q2	30,803,015	3,000,000	21.69	668,117,395
Information Technology		2014 Q3	45,825,684	15,022,669	22.36	1,024,662,294
Cost basis:		2014 Q4	46,271,370	445,686	22.52	1,042,031,252
$22.79		2015 Q1	46,271,370	0	23.87	1,104,497,602
Annualized Return:		2015 Q2	46,271,370	0	25.03	1,158,172,391
12.0%		2015 Q3	0	0	27.02	0
Time Held:						
1.50						
Excess Return vs. Sector:						
1.7%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
PayPal	9.6%	2015 Q3	46,271,370	**46,271,370**	36.52	1,689,830,432
Sector:		2015 Q4	46,271,370	0	35.33	1,634,767,502
Information Technology		2016 Q1	46,271,370	0	35.92	1,662,067,610
Cost basis:		2016 Q2	46,271,370	0	39.19	1,813,374,990
$36.52						
Annualized Return:						
9.9%						
Time Held:						
0.75						
Excess Return vs. Sector:						
0.2%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Xerox	26.1%	2015 Q4	86,436,172	**86,436,172**	9.99	863,497,358
Sector:		2016 Q1	92,377,043	5,940,871	9.60	886,819,613
Information Technology		2016 Q2	92,377,043	0	11.07	1,022,613,866
Cost basis:						
$9.97						
Annualized Return:						
23.3%						
Time Held:						
0.50						
Excess Return vs. Sector:						
-2.8%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Freeport Mcmoran	-9.7%	2015 Q3	100,000,000	**100,000,000**	11.29	1,129,000,000
Sector:		2015 Q4	104,000,000	4,000,000	9.21	957,840,000
Materials		2016 Q1	104,000,000	0	6.65	691,600,000
Cost basis:		2016 Q2	104,000,000	0	9.81	1,020,240,000
$11.21						
Annualized Return:						
-16.3%						
Time Held:						
0.75						
Excess Return vs. Sector:						
-6.6%						

Appendix F – Icahn Associates Corporation Activist Scorecard

Activist Position Scorecard				
Fund:	**Icahn Associates Corporation**			
	Number of Positions	Weigthed Average Return	Current Weight	Total Weighted Activist Return
Current Activist Positions:	21			**-7.9%**
Outperform:	5	4.8%	25.2%	1.2%
Underperform:	13	-15.6%	59.0%	-9.2%
Neutral*:	3	0.2%	15.8%	0.0%

**within 1% of Sector Return*

Appendix G – JANA Partners Activist Positions

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Conagra Foods	8.9%	2015 Q2	11,537,414	**11,537,414**	38.66	446,036,425
Sector:		2015 Q3	30,569,414	19,032,000	42.09	1,286,666,635
Consumer Staples		2015 Q4	28,629,613	(1,939,801)	40.68	1,164,652,657
Cost basis:		2016 Q1	28,629,613	0	41.47	1,187,270,051
$40.79		2016 Q2	28,629,613	0	45.45	1,301,215,911
Annualized Return:						
11.4%						
Time Held:						
1.00						
Excess Return vs. Sector:						
2.6%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Computer Sciences		2014 Q4	2,754,027	2,754,027	34.12	93,967,401
Sector:	5.8%	2015 Q1	7,467,874	**4,713,847**	37.03	276,535,374
Information Technology		2015 Q2	8,038,030	570,156	37.81	303,917,914
Cost basis:		2015 Q3	7,332,386	(705,644)	36.29	266,092,288
$36.09		2015 Q4	4,768,083	(2,564,303)	33.85	161,399,610
Annualized Return:		2016 Q1	4,768,083	0	29.69	141,564,384
-4.0%		2016 Q2	4,768,083	0	33.96	161,924,099
Time Held:						
1.50						
Excess Return vs. Sector:						
-9.8%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Qualcomm		2014 Q4	4,400,705	4,400,705	69.35	305,188,892
Sector:	5.8%	2015 Q1	28,537,985	**24,137,280**	67.22	1,918,323,352
Information Technology		2015 Q2	28,819,654	281,669	66.01	1,902,385,361
Cost basis:		2015 Q3	28,550,816	(268,838)	57.98	1,655,376,312
$67.54		2015 Q4	9,212,133	(19,338,683)	51.55	474,885,456
Annualized Return:		2016 Q1	9,212,133	0	48.05	442,642,991
-17.6%		2016 Q2	9,212,133	0	50.51	465,304,838
Time Held:						
1.50						
Excess Return vs. Sector:						
-23.4%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Team Health Holdings	-21.6%	2016 Q1	5,890,368	**5,890,368**	40.46	238,324,289
Sector:		2016 Q2	5,890,368	0	41.61	245,098,212
Health Care						
Cost basis:						
$40.46						
Annualized Return:						
11.9%						
Time Held:						
0.25						
Excess Return vs. Sector:						
33.5%						

Appendix H – JANA Partners Activist Scorecard

Activist Position Scorecard				
Fund:	**JANA Partners**			
	Number of Positions	Weigthed Average Return	Current Weight	Total Weighted Activist Return
Current Activist Positions:	4			**-0.4%**
Outperform:	2	1.2%	67.3%	0.8%
Underperform:	2	-3.8%	32.7%	-1.2%
Neutral*:	0	0.0%	0.0%	0.0%

**within 1% of Sector Return*

Appendix I – Pershing Square Capital Management Activist Positions

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted	Position Value
Mondelez International	15.6%	2015 Q3	43,366,342	**43,366,342**	42.78	1,855,212,111
Sector:		2015 Q4	43,366,342	0	44.22	1,917,659,643
Consumer Staples		2016 Q1	22,942,225	(20,424,117)	40.35	925,718,779
Cost basis:		2016 Q2	22,942,225	0	40.86	937,419,314
$42.78						
Annualized Return:						
-5.9%						
Time Held:						
0.75						
Excess Return vs. Sector:						
-21.5%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted	Position Value
Howard Hughes	8.5%	2010 Q4	3,568,017	**3,568,017**	44.16	157,563,631
Sector:		2011 Q1	3,568,017	0	58.77	209,692,359
Financials		2011 Q2	3,568,017	0	67.63	241,304,990
Cost basis:		2011 Q3	3,568,017	0	52.00	185,536,884
$44.16		2011 Q4	3,568,017	0	44.58	159,062,198
Annualized Return:		2012 Q1	3,568,017	0	55.23	197,061,579
16.5%		2012 Q2	3,568,017	0	61.91	220,895,932
Time Held:		2012 Q3	3,568,017	0	65.55	233,883,514
5.50		2012 Q4	3,568,017	0	72.11	257,289,706
Excess Return vs. Sector:		2013 Q1	3,568,017	0	76.76	273,880,985
7.9%		2013 Q2	3,568,017	0	100.24	357,658,024
		2013 Q3	3,568,017	0	109.31	390,019,938
		2013 Q4	3,568,017	0	113.48	404,898,569
		2014 Q1	3,568,017	0	132.63	473,226,095
		2014 Q2	3,568,017	0	145.81	520,252,559
		2014 Q3	3,568,017	0	153.29	546,941,326
		2014 Q4	3,568,017	0	138.11	492,778,828
		2015 Q1	3,568,017	0	136.72	487,819,284
		2015 Q2	3,568,017	0	149.07	531,884,294
		2015 Q3	3,568,017	0	128.39	458,097,703
		2015 Q4	3,568,017	0	120.54	430,088,769
		2016 Q1	3,568,017	0	96.36	343,814,118
		2016 Q2	3,568,017	0	102.18	364,579,977

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted	Position Value
Valeant Pharmaceuticals	-0.7%	2015 Q1	19,473,933	**19,473,933**	222.79	4,338,597,533
Sector:		2015 Q2	19,473,933	0	273.03	5,316,967,927
Health Care		2015 Q3	19,473,933	0	297.83	5,799,921,465
Cost basis:		2015 Q4	16,591,122	(2,882,811)	146.57	2,431,760,752
$189.62		2016 Q1	21,591,122	5,000,000	79.59	1,718,437,400
Annualized Return:		2016 Q2	21,591,122	0	36.61	790,450,976
-73.2%						
Time Held:						
1.25						
Excess Return vs. Sector:						
-72.5%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted	Position Value
Zoetis		2014 Q3	5,536,862	5,536,862	33.87	187,533,516
Sector:	4.0%	2014 Q4	41,569,646	**36,032,784**	40.33	1,676,503,823
Health Care		2015 Q1	41,823,145	253,499	44.76	1,872,003,970
Cost basis:		2015 Q2	41,823,145	0	47.52	1,987,435,850
$39.50		2015 Q3	41,823,145	0	45.71	1,911,735,958
Annualized Return:		2015 Q4	41,823,145	0	44.42	1,857,784,101
7.5%		2016 Q1	41,823,145	0	42.19	1,764,518,488
Time Held:		2016 Q2	41,823,145	0	44.81	1,874,095,127
1.75						
Excess Return vs. Sector:						
3.5%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted	Position Value
Candian Pacific Railway		2011 Q3	4,040,235	4,040,235	52.47	211,991,130
Sector:	15.3%	2011 Q4	24,154,408	**20,114,173**	57.54	1,389,844,636
Industrials		2012 Q1	24,159,888	5,480	70.31	1,698,681,725
Cost basis:		2012 Q2	24,159,888	0	72.25	1,745,551,908
$56.72		2012 Q3	24,159,888	0	77.41	1,870,216,930
Annualized Return:		2012 Q4	24,159,888	0	89.99	2,174,148,321
26.1%		2013 Q1	24,159,888	0	114.88	2,775,487,933
Time Held:		2013 Q2	24,159,888	0	125.24	3,025,784,373
4.75		2013 Q3	23,125,192	(1,034,696)	125.75	2,907,992,894
Excess Return vs. Sector:		2013 Q4	17,159,888	(5,965,304)	146.46	2,513,237,196
10.8%		2014 Q1	17,159,888	0	164.60	2,824,517,565
		2014 Q2	13,938,302	(3,221,586)	176.85	2,464,988,709
		2014 Q3	13,940,890	2,588	210.62	2,936,230,252
		2014 Q4	13,940,890	0	220.89	3,079,403,192
		2015 Q1	13,940,890	0	226.76	3,161,236,216
		2015 Q2	13,940,890	0	214.85	2,995,200,217
		2015 Q3	13,940,890	0	195.60	2,726,838,084
		2015 Q4	13,940,890	0	185.49	2,585,895,686
		2016 Q1	13,940,890	0	164.54	2,293,834,041
		2016 Q2	13,940,890	0	170.90	2,382,498,101

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted	Position Value
Air Products & Chemicals	4.6%	2013 Q2	10,095,708	**10,095,708**	84.96	857,731,352
Sector:		2013 Q3	20,545,284	10,449,576	96.04	1,973,169,075
Materials		2013 Q4	20,549,076	3,792	102.33	2,102,786,947
Cost basis:		2014 Q1	20,549,076	0	108.87	2,237,177,904
$90.60		2014 Q2	20,549,076	0	116.59	2,395,816,771
Annualized Return		2014 Q3	20,549,076	0	127.10	2,611,787,560
16.9%		2014 Q4	20,549,076	0	129.31	2,657,201,018
Time Held:		2015 Q1	20,549,076	0	144.35	2,966,259,121
3.00		2015 Q2	20,549,076	0	143.65	2,951,874,767
Excess Return vs. Sector:		2015 Q3	20,549,076	0	134.85	2,771,042,899
12.3%		2015 Q4	20,549,076	0	133.88	2,751,110,295
		2016 Q1	7,601,140	(12,947,936)	129.91	987,464,097
		2016 Q2	7,601,140	0	144.64	1,099,428,890

Appendix J – Pershing Square Capital Management Activist Scorecard

Activist Position Scorecard				
Fund:	**Pershing Square Capital Management**			
	Number of Positions	Weigthed Average Return	Current Weight	Total Weighted Activist Return
Current Activist Positions:	6			**-3.9%**
Outperform:	4	8.5%	76.8%	6.5%
Underperform:	2	-44.8%	23.2%	-10.4%
Neutral*:	0	0.0%	0.0%	0.0%

**within 1% of Sector Return*

Appendix K – Third Point LLC Activist Positions

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Baxter International		2015 Q2	3,950,000	3,950,000	36.91	145,794,500
Sector:	-11.7%	2015 Q3	53,850,000	**49,900,000**	38.20	2,057,070,000
Health Care		2015 Q4	53,850,000	0	35.94	1,935,369,000
Cost basis:		2016 Q1	53,850,000	0	37.62	2,025,837,000
$38.11		2016 Q2	53,850,000	0	41.39	2,228,851,500
Annualized Return:						
8.6%						
Time Held:						
1.00						
Excess Return vs. Sector:						
20.3%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Green Brick Partners		2012 Q2	1,008,432	729,492	5.16	5,203,509
Sector:		2012 Q3	1,043,123	34,691	4.34	4,527,154
Consumer Discretionary		2012 Q4	1,043,123	0	3.88	4,047,317
Cost basis:		2013 Q1	1,043,123	0	3.47	3,619,637
$10.05		2013 Q2	1,043,123	0	2.79	2,910,313
Annualized Return:		2013 Q3	1,043,123	0	2.47	2,576,514
-7.1%		2013 Q4	1,043,123	0	1.37	1,429,079
Time Held:		2014 Q1	1,043,123	0	2.9	3,025,057
4.00		2014 Q2	1,043,123	0	4.73	4,933,972
Excess Return vs. Sector:		2014 Q3	1,043,126	3	6.18	6,446,519
-19.2%	12.0%	2014 Q4	5,242,124	**4,198,998**	7.12	37,323,923
		2015 Q1	5,242,124	0	7.71	40,416,776
		2015 Q2	8,083,022	2,840,898	9.91	80,102,748
		2015 Q3	8,083,022	0	12.07	97,562,076
		2015 Q4	8,083,022	0	8.5	68,705,687
		2016 Q1	8,083,022	0	5.99	48,417,302
		2016 Q2	8,083,022	0	7.48	60,461,005

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Sotheby's		2013 Q1	500,000	500,000	36.27	18,135,000
Sector:		2013 Q2	2,500,000	2,000,000	35.69	89,225,000
Consumer Discretionary	13.1%	2013 Q3	6,150,000	**3,650,000**	44.04	270,846,000
Cost basis:		2013 Q4	6,350,000	200,000	50.29	319,341,500
$41.22		2014 Q1	6,650,000	300,000	46.68	310,422,000
Annualized Return:		2014 Q2	6,650,000	0	40.05	266,332,500
-12.8%		2014 Q3	6,650,000	0	38.69	257,288,500
Time Held:		2014 Q4	6,650,000	0	38.86	258,419,000
3.25		2015 Q1	6,650,000	0	42.03	279,499,500
Excess Return vs. Sector:		2015 Q2	6,650,000	0	43.72	290,738,000
-25.9%		2015 Q3	6,650,000	0	37.13	246,914,500
		2015 Q4	6,650,000	0	30.36	201,894,000
		2016 Q1	6,660,925	10,925	23.49	156,465,128
		2016 Q2	6,660,925	0	26.39	175,781,811

Appendix L – Third Point LLC Activist Scorecard

Activist Position Scorecard				
Fund:	**Third Point LLC**			
	Number of Positions	Weigthed Average Return	Current Weight	Total Weighted Activist Return
Current Activist Positions:	3			**16.0%**
Outperform:	1	20.3%	90.4%	18.3%
Underperform:	2	-24.2%	9.6%	-2.3%
Neutral*:	0	0.0%	0.0%	0.0%

**within 1% of Sector Return*

Appendix M – Trian Fund Management Activist Positions

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Wendy's	14.1%	2008 Q3	27,227,751	**27,227,751**	4.76	129,604,095
Sector:		2008 Q4	76,623,145	49,395,394	3.37	258,219,999
Consumer Discretionary		2009 Q1	76,623,145	0	4.33	331,778,218
Cost basis:		2009 Q2	76,623,145	0	3.86	295,765,340
$3.92		2009 Q3	76,623,145	0	4.21	322,583,440
Annualized Return:		2009 Q4	76,623,145	0	3.82	292,700,414
14.1%		2010 Q1	76,623,145	0	4.15	317,986,052
Time Held:		2010 Q2	76,623,145	0	4.16	318,752,283
7.50		2010 Q3	76,623,145	0	3.77	288,869,257
Excess Return vs. Sector:		2010 Q4	76,623,145	0	4.21	322,583,440
0.0%		2011 Q1	76,623,145	0	4.34	332,544,449
		2011 Q2	76,623,145	0	4.39	336,375,607
		2011 Q3	76,623,145	0	4.53	347,102,847
		2011 Q4	76,623,145	0	4.55	348,635,310
		2012 Q1	83,000,245	6,377,100	4.58	380,141,122
		2012 Q2	83,000,245	0	4.27	354,411,046
		2012 Q3	83,000,245	0	4.12	341,961,009
		2012 Q4	83,000,245	0	4.12	341,961,009
		2013 Q1	83,000,245	0	4.95	410,851,213
		2013 Q2	83,000,245	0	5.41	449,031,325
		2013 Q3	83,000,245	0	7.16	594,281,754
		2013 Q4	83,000,245	0	8.09	671,471,982
		2014 Q1	64,800,245	(18,200,000)	8.73	565,706,139
		2014 Q2	64,800,245	0	8.06	522,289,975
		2014 Q3	64,800,245	0	7.89	511,273,933
		2014 Q4	64,800,245	0	8.08	523,585,980
		2015 Q1	64,800,245	0	10.35	670,682,536
		2015 Q2	54,024,581	(10,775,664)	10.87	587,247,195
		2015 Q3	40,792,537	(13,232,044)	9.64	393,240,057
		2015 Q4	40,792,537	0	9.74	397,319,310
		2016 Q1	40,792,537	0	9.87	402,622,340
		2016 Q2	40,792,537	0	10.93	445,862,429

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Mondelez International	13.8%	2013 Q1	40,300,550	**40,300,550**	26.43	1,065,143,537
Sector:		2013 Q2	40,946,850	646,300	28.99	1,187,049,182
Consumer Staples		2013 Q3	40,946,850	0	29.71	1,216,530,914
Cost basis:		2013 Q4	41,473,078	526,228	31.78	1,318,014,419
$28.38		2014 Q1	41,737,993	264,915	33.02	1,378,188,529
Annualized Return:		2014 Q2	41,741,854	3,861	35.34	1,475,157,120
11.9%		2014 Q3	41,741,854	0	35.33	1,474,739,702
Time Held:		2014 Q4	46,299,025	4,557,171	35.29	1,633,892,592
3.25		2015 Q1	48,024,117	1,725,092	35.36	1,698,132,777
Excess Return vs. Sector:		2015 Q2	48,028,053	3,936	38.51	1,849,560,321
-1.9%		2015 Q3	48,028,087	34	42.78	2,054,641,562
		2015 Q4	48,028,124	37	44.22	2,123,803,643
		2016 Q1	50,658,195	2,630,071	40.35	2,044,058,168
		2016 Q2	50,658,195	0	40.86	2,069,893,848

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
PepsiCo	13.8%	2013 Q1	12,030,846	**12,030,846**	67.64	813,766,423
Sector:		2013 Q2	12,270,046	239,200	75.13	921,848,556
Consumer Staples		2013 Q3	12,270,046	0	76.27	935,836,408
Cost basis:		2013 Q4	12,348,546	78,500	77.35	955,160,033
$74.08		2014 Q1	12,421,546	73,000	76.01	944,161,711
Annualized Return:		2014 Q2	12,938,653	517,107	81.54	1,055,017,766
10.8%		2014 Q3	17,865,831	4,927,178	87.10	1,556,113,880
Time Held:		2014 Q4	17,865,831	0	91.69	1,638,118,044
3.25		2015 Q1	18,316,211	450,380	93.52	1,712,932,053
Excess Return vs. Sector:		2015 Q2	18,316,211	0	93.02	1,703,773,947
-3.0%		2015 Q3	18,316,211	0	93.00	1,703,407,623
		2015 Q4	18,316,211	0	98.41	1,802,498,325
		2016 Q1	18,316,211	0	98.04	1,795,721,326
		2016 Q2	18,316,211	0	103.24	1,890,965,624

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Sysco		2015 Q2	10,218,418	10,218,418	36.32	371,132,942
Sector:	15.6%	2015 Q3	41,411,938	**31,193,520**	37.72	1,562,058,301
Consumer Staples		2015 Q4	42,685,607	1,273,669	40.31	1,720,656,818
Cost basis:		2016 Q1	43,261,399	575,792	42.52	1,839,474,685
$37.53		2016 Q2	43,261,399	0	46.89	2,028,526,999
Annualized Return:						
24.9%						
Time Held:						
1.00						
Excess Return vs. Sector:						
9.4%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
BNY Mellon		2014 Q1	9,330,230	9,330,230	31.98	298,380,755
Sector:		2014 Q2	19,110,843	9,780,613	33.52	640,595,457
Financials	-0.6%	2014 Q3	28,897,639	**9,786,796**	37.85	1,093,775,636
Cost basis:		2014 Q4	28,897,639	0	37.96	1,096,954,376
34.85		2015 Q1	30,225,639	1,328,000	38.13	1,152,503,615
Annualized Return:		2015 Q2	30,225,639	0	42.20	1,275,521,966
2.5%		2015 Q3	30,228,703	3,064	41.00	1,239,376,823
Time Held:		2015 Q4	30,935,516	706,813	41.70	1,290,011,017
2.25		2016 Q1	31,823,629	888,113	36.04	1,146,923,589
Excess Return vs. Sector:		2016 Q2	31,823,629	0	36.84	1,172,382,492
3.1%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Legg Mason		2009 Q1	745,846	745,846	14.21	10,598,472
Sector:		2009 Q2	3,007,546	2,261,700	19.12	57,504,280
Financials	9.8%	2009 Q3	6,946,756	**3,939,210**	25.25	175,405,589
Cost basis:		2009 Q4	9,608,586	2,661,830	27.69	266,061,746
$24.73		2010 Q1	9,934,086	325,500	25.76	255,902,055
Annualized Return:		2010 Q2	11,078,686	1,144,600	28.76	318,623,009
4.6%		2010 Q3	11,078,686	0	26.11	289,264,491
Time Held:		2010 Q4	11,078,686	0	30.90	342,331,397
7.25		2011 Q1	11,257,370	178,684	32.43	365,076,509
Excess Return vs. Sector:		2011 Q2	11,257,370	0	31.64	356,183,187
-5.2%		2011 Q3	14,702,269	3,444,899	25.94	381,376,858
		2011 Q4	14,702,269	0	23.98	352,560,411
		2012 Q1	14,702,269	0	25.32	372,261,451
		2012 Q2	14,702,269	0	23.56	346,385,458
		2012 Q3	12,884,337	(1,817,932)	24.15	311,156,739
		2012 Q4	12,884,337	0	23.96	308,708,715
		2013 Q1	12,884,337	0	27.07	348,779,003
		2013 Q2	12,884,337	0	31.29	403,150,905
		2013 Q3	12,886,493	2,156	32.10	413,656,425
		2013 Q4	12,886,493	0	37.57	484,145,542
		2014 Q1	12,886,493	0	42.89	552,701,685
		2014 Q2	12,886,493	0	46.23	595,742,571
		2014 Q3	12,887,964	1,471	48.20	621,199,865
		2014 Q4	12,887,964	0	51.29	661,023,674
		2015 Q1	12,887,964	0	54.71	705,100,510
		2015 Q2	11,039,896	(1,848,068)	52.83	583,237,706
		2015 Q3	11,039,896	0	45.41	501,321,677
		2015 Q4	11,039,896	0	42.33	467,318,798
		2016 Q1	11,039,896	0	31.05	342,788,771
		2016 Q2	11,039,896	0	34.37	379,441,226

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Pentair PLC	-0.5%	2015 Q2	6,788,791	**6,788,791**	62.02	421,040,818
Sector:		2015 Q3	13,005,377	6,216,586	57.38	746,248,532
Industrials		2015 Q4	13,681,877	676,500	53.87	737,042,714
Cost basis:		2016 Q1	14,335,888	654,011	47.33	678,517,579
$58.95		2016 Q2	14,335,888	0	53.43	765,966,496
Annualized Return:						
-9.4%						
Time Held:						
1.00						
Excess Return vs. Sector:						
-8.8%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
DuPont		2013 Q2	5,778,403	5,778,403	46.50	268,695,740
Sector:		2013 Q3	5,778,403	0	50.98	294,582,985
Materials		2013 Q4	5,778,403	0	54.18	313,073,875
Cost basis:		2014 Q1	6,141,364	362,961	57.55	353,435,498
$59.16		2014 Q2	6,141,364	0	60.97	374,438,963
Annualized Return:		2014 Q3	6,959,877	818,513	61.02	424,691,695
2.2%	-6.5%	2014 Q4	24,313,084	**17,353,207**	63.66	1,547,770,927
Time Held:		2015 Q1	24,563,084	250,000	69.53	1,707,871,231
3.00		2015 Q2	24,563,084	0	65.69	1,613,548,988
Excess Return vs. Sector:		2015 Q3	25,801,884	1,238,800	52.31	1,349,696,552
8.7%		2015 Q4	20,224,075	(5,577,809)	62.82	1,270,476,392
		2016 Q1	20,224,075	0	59.31	1,199,489,888
		2016 Q2	20,224,075	0	63.14	1,276,948,096

Appendix N – Trian Fund Management Activist Scorecard

Activist Position Scorecard				
Fund:	**Trian Fund Management**			
	Number of Positions	Weigthed Average Return	Current Weight	Total Weighted Activist Return
Current Activist Positions:	8			**1.5%**
Outperform:	3	7.5%	44.6%	3.4%
Underperform:	4	-3.6%	50.9%	-1.8%
Neutral*:	1	0.0%	4.4%	0.0%

**within 1% of Sector Return*

Appendix O – ValueAct Capital Management Activist Positions

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Twenty-First Century Fox		2014 Q2	2,663,083	2,663,083	32.25	85,884,427
Sector:	10.2%	2014 Q3	25,200,000	**22,536,917**	32.65	822,780,000
Consumer Discretionary		2014 Q4	30,300,000	5,100,000	33.50	1,015,050,000
Cost basis:		2015 Q1	31,385,000	1,085,000	32.98	1,035,077,300
$32.46		2015 Q2	44,581,334	13,196,334	32.59	1,452,905,675
Annualized Return:		2015 Q3	47,326,334	2,745,000	28.28	1,338,388,726
-5.8%		2015 Q4	47,326,334	0	29.12	1,378,142,846
Time Held:		2016 Q1	47,326,334	0	26.50	1,254,147,851
2.00		2016 Q2	47,326,334	0	28.82	1,363,944,946
Excess Return vs. Sector:						
-16.0%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Baker Hughes	-22.4%	2014 Q4	14,997,500	**14,997,500**	57.24	858,456,900
Sector:		2015 Q1	23,246,700	8,249,200	59.08	1,373,415,036
Energy		2015 Q2	23,246,700	0	64.76	1,505,456,292
Cost basis:		2015 Q3	23,246,700	0	55.07	1,280,195,769
$57.89		2015 Q4	23,246,700	0	50.37	1,170,936,279
Annualized Return:		2016 Q1	23,246,700	0	43.13	1,002,630,171
-17.7%		2016 Q2	23,246,700	0	43.22	1,004,722,374
Time Held:						
1.50						
Excess Return vs. Sector:						
4.7%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Halliburton	-22.4%	2014 Q4	20,895,000	**20,895,000**	45.99	960,961,050
Sector:		2015 Q1	33,756,760	12,861,760	40.48	1,366,473,645
Energy		2015 Q2	37,518,260	3,761,500	45.38	1,702,578,639
Cost basis:		2015 Q3	37,149,560	(368,700)	38.77	1,440,288,441
$44.04		2015 Q4	16,504,295	(20,645,265)	37.40	617,260,633
Annualized Return:		2016 Q1	16,504,295	0	32.08	529,457,784
-14.2%		2016 Q2	16,504,295	0	35.01	577,815,368
Time Held:						
1.50						
Excess Return vs. Sector:						
8.3%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
MSCI	11.1%	2012 Q4	6,159,213	**6,159,213**	26.92	165,806,014
Sector:		2013 Q1	6,159,213	0	32.51	200,236,015
Financials		2013 Q2	6,200,622	41,409	33.13	205,426,607
Cost basis:		2013 Q3	7,394,017	1,193,395	36.77	271,878,005
$31.36		2013 Q4	7,454,117	60,100	41.02	305,767,879
Annualized Return:		2014 Q1	8,133,117	679,000	42.55	346,064,128
27.9%		2014 Q2	9,341,288	1,208,171	41.77	390,185,600
Time Held:		2014 Q3	9,308,960	(32,328)	45.63	424,767,845
3.50		2014 Q4	9,308,960	0	45.95	427,746,712
Excess Return vs. Sector:		2015 Q1	9,308,960	0	54.43	506,686,693
16.9%		2015 Q2	9,308,960	0	61.22	569,894,531
		2015 Q3	9,309,311	351	61.99	577,084,189
		2015 Q4	6,327,311	(2,982,000)	66.52	420,892,728
		2016 Q1	4,060,900	(2,266,411)	69.07	280,486,363
		2016 Q2	4,060,900	0	74.23	301,440,607

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Valeant Pharmaceuticals	16.5%	2010 Q3	26,959,901	**26,959,901**	22.81	614,955,342
Sector:		2010 Q4	26,959,901	0	26.99	727,647,728
Health Care		2011 Q1	19,593,482	(7,366,419)	39.68	777,469,366
Cost basis:		2011 Q2	15,095,302	(4,498,180)	51.55	778,162,818
$32.95		2011 Q3	15,095,302	0	43.42	655,438,013
Annualized Return:		2011 Q4	15,095,302	0	41.00	618,907,382
-2.7%		2012 Q1	15,095,302	0	50.39	760,652,268
Time Held:		2012 Q2	17,559,302	2,464,000	49.77	873,926,461
5.75		2012 Q3	17,559,302	0	51.83	910,098,623
Excess Return vs. Sector:		2012 Q4	17,559,302	0	56.81	997,543,947
-19.2%		2013 Q1	17,559,302	0	66.88	1,174,366,118
		2013 Q2	18,923,877	1,364,575	81.21	1,536,808,051
		2013 Q3	18,923,877	0	97.12	1,837,886,934
		2013 Q4	18,923,877	0	109.24	2,067,244,323
		2014 Q1	18,923,877	0	136.35	2,580,270,629
		2014 Q2	18,923,877	0	127.59	2,414,497,466
		2014 Q3	18,923,877	0	118.53	2,243,047,141
		2014 Q4	19,383,877	460,000	132.53	2,568,945,219
		2015 Q1	19,383,877	0	183.57	3,558,298,301
		2015 Q2	14,994,261	(4,389,616)	221.14	3,315,830,878
		2015 Q3	14,994,261	0	215.71	3,234,412,040
		2015 Q4	14,994,261	0	104.27	1,563,451,594
		2016 Q1	14,994,261	0	52.48	786,898,817
		2016 Q2	14,994,261	0	28.11	421,488,677

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Allison Transmission		2013 Q3	4,625,204	4,625,204	21.95	101,523,228
Sector:	7.4%	2013 Q4	18,025,204	**13,400,000**	24.75	446,123,799
Industrials		2014 Q1	18,025,204	0	27.92	503,263,696
Cost basis:		2014 Q2	18,025,204	0	29.20	526,335,957
$24.40		2014 Q3	18,025,204	0	29.40	529,940,998
Annualized Return:		2014 Q4	19,125,204	1,100,000	30.41	581,597,454
3.4%		2015 Q1	19,125,204	0	31.19	596,515,113
Time Held:		2015 Q2	19,125,204	0	30.34	580,258,689
2.75		2015 Q3	19,125,204	0	28.12	537,800,736
Excess Return vs. Sector:		2015 Q4	19,125,204	0	27.05	517,336,768
-4.0%		2016 Q1	19,125,204	0	23.98	458,622,392
		2016 Q2	19,125,204	0	26.78	512,172,963

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Armstrong World Industries	3.0%	2014 Q2	2,700,000	**2,700,000**	54.07	145,989,000
Sector:		2014 Q3	9,200,000	6,500,000	54.38	500,296,000
Industrials		2014 Q4	9,200,000	0	49.06	451,352,000
Cost basis:		2015 Q1	9,200,000	0	53.94	496,248,000
$54.29		2015 Q2	9,200,000	0	55.66	512,072,000
Annualized Return:		2015 Q3	9,200,000	0	54.47	501,124,000
-5.9%		2015 Q4	9,200,000	0	48.56	446,752,000
Time Held:		2016 Q1	9,200,000	0	40.38	371,496,000
2.00		2016 Q2	9,200,000	0	48.08	442,336,000
Excess Return vs. Sector:						
-8.8%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price (GBp)	Position Value
Rolls Royce	3.5%	2015 Q3	100,000,000	**100,000,000**	7.54	754,000,000
Sector:		2015 Q4	184,000,000	84,000,000	6.07	1,116,880,000
Industrials		2016 Q1	199,106,254	15,106,254	6.09	1,212,557,087
Cost basis:		2016 Q2	199,106,254	0	6.64	1,322,065,527
£6.81						
Annualized Return:					in USD	1,890,553,703
-3.3%						
Time Held:						
0.75						
Excess Return vs. Sector:						
-6.8%						

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Adobe Systems		2011 Q1	625,900	625,900	33.20	20,779,880
Sector:		2011 Q2	4,709,406	4,083,506	32.98	155,316,210
Information Technology	12.2%	2011 Q3	16,717,956	**12,008,550**	25.95	433,830,958
Cost basis:		2011 Q4	24,620,556	7,902,600	27.41	674,849,440
$28.71		2012 Q1	27,353,362	2,732,806	32.08	877,495,853
Annualized Return:		2012 Q2	31,303,362	3,950,000	32.22	1,008,594,324
25.6%		2012 Q3	31,303,362	0	32.23	1,008,907,357
Time Held:		2012 Q4	31,303,362	0	34.71	1,086,539,695
5.25		2013 Q1	31,303,362	0	39.69	1,242,430,438
Excess Return vs. Sector:		2013 Q2	31,303,362	0	44.46	1,391,747,475
13.4%		2013 Q3	31,303,362	0	48.35	1,513,517,553
		2013 Q4	25,310,116	(5,993,246)	55.17	1,396,359,100
		2014 Q1	25,310,116	0	64.50	1,632,502,482
		2014 Q2	24,560,116	(750,000)	64.36	1,580,689,066
		2014 Q3	23,860,116	(700,000)	70.32	1,677,843,357
		2014 Q4	16,006,753	(7,853,363)	69.86	1,118,231,765
		2015 Q1	16,006,753	0	74.68	1,195,384,314
		2015 Q2	15,703,739	(303,014)	78.53	1,233,214,624
		2015 Q3	14,010,739	(1,693,000)	80.84	1,132,628,141
		2015 Q4	14,010,739	0	88.34	1,237,708,683
		2016 Q1	6,000	(14,004,739)	85.95	515,700
		2016 Q2	6,000	0	94.93	569,580

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Microsoft		2013 Q1	33,353,513	33,353,513	25.34	845,178,019
Sector:	13.6%	2013 Q2	57,750,000	**24,396,487**	29.99	1,731,922,500
Information Technology		2013 Q3	66,865,530	9,115,530	30.52	2,040,735,976
Cost basis:		2013 Q4	66,865,530	0	34.02	2,274,765,331
$28.81		2014 Q1	71,285,530	4,420,000	35.49	2,529,923,460
Annualized Return:		2014 Q2	74,236,642	2,951,112	38.41	2,851,429,419
22.2%		2014 Q3	74,237,469	827	42.97	3,189,984,043
Time Held:		2014 Q4	74,238,243	774	44.93	3,335,524,258
3.25		2015 Q1	75,271,429	1,033,186	41.90	3,153,872,875
Excess Return vs. Sector:		2015 Q2	75,271,429	0	44.71	3,365,385,591
8.6%		2015 Q3	75,273,091	1,662	43.89	3,303,735,964
		2015 Q4	56,623,770	(18,649,321)	52.20	2,955,760,794
		2016 Q1	56,623,770	0	52.04	2,946,700,991
		2016 Q2	56,623,770	0	55.26	3,129,029,530

Position Information	Sector Return (annualized)	Start of Quarter	Shares	Change	Volume Weighted Avgerage Price	Position Value
Motorola Solutions		2011 Q1	3,990,500	3,990,500	36.00	143,658,000
Sector:	11.2%	2011 Q2	20,537,900	**16,547,400**	41.35	849,242,165
Information Technology		2011 Q3	24,001,000	3,463,100	38.54	924,998,540
Cost basis:		2011 Q4	24,001,000	0	41.54	997,001,540
$40.86		2012 Q1	28,971,500	4,970,500	44.74	1,296,184,910
Annualized Return:		2012 Q2	28,971,500	0	45.11	1,306,904,365
12.6%		2012 Q3	28,907,623	(63,877)	44.40	1,283,498,461
Time Held:		2012 Q4	28,907,623	0	49.34	1,426,302,119
5.25		2013 Q1	28,907,623	0	56.24	1,625,764,718
Excess Return vs. Sector:		2013 Q2	28,907,623	0	54.44	1,573,730,996
1.4%		2013 Q3	28,907,623	0	54.20	1,566,793,167
		2013 Q4	28,907,623	0	60.09	1,737,059,066
		2014 Q1	28,907,623	0	62.38	1,803,257,523
		2014 Q2	28,907,623	0	62.90	1,818,289,487
		2014 Q3	28,907,623	0	59.83	1,729,543,084
		2014 Q4	17,588,576	(11,319,047)	61.59	1,083,280,396
		2015 Q1	17,588,576	0	64.41	1,132,880,180
		2015 Q2	17,588,576	0	58.93	1,036,494,784
		2015 Q3	17,588,576	0	63.54	1,117,578,119
		2015 Q4	17,588,576	0	68.54	1,205,520,999
		2016 Q1	8,213,576	(9,375,000)	68.93	566,161,794
		2016 Q2	8,213,576	0	76.10	625,053,134

Appendix P – ValueAct Capital Management Activist Scorecard

Activist Position Scorecard				
Fund:	**ValueAct Capital Management**			
	Number of Positions	Weigthed Average Return	Current Weight	Total Weighted Activist Return
Current Activist Positions:	11			**0.9%**
Outperform:	6	8.0%	61.7%	4.9%
Underperform:	5	-10.5%	38.3%	-4.0%
Neutral*:	0	0.0%	0.0%	0.0%

**within 1% of Sector Return*

Appendix Q – 13D Activist Fund vs. S&P 500 Cumulative Returns

Start of Quarter	13D Activist Fund Price	Period Return (annualized)	Cumulative Return (annualized)	SPX Index Price	Period Return (annualized)	Cumulative Return (annualized)	Cumulative Alpha (13D - S&P)
2012 Q1	10.00	N/A	N/A	1,257.60	N/A	N/A	N/A
2012 Q2	11.25	60.2%	60.2%	1,408.47	57.3%	57.3%	2.8%
2012 Q3	10.82	-14.4%	17.1%	1,362.16	-12.5%	17.3%	-0.2%
2012 Q4	11.53	28.9%	20.9%	1,440.67	25.1%	19.9%	1.0%
2013 Q1	11.75	7.9%	17.5%	1,426.19	-4.0%	13.4%	4.1%
2013 Q2	13.59	78.9%	27.8%	1,569.19	46.6%	19.4%	8.4%
2013 Q3	13.80	6.3%	24.0%	1,606.28	9.8%	17.7%	6.2%
2013 Q4	15.19	46.8%	27.0%	1,681.55	20.1%	18.1%	8.9%
2014 Q1	15.62	11.8%	25.0%	1,848.36	46.0%	21.2%	3.7%
2014 Q2	16.38	20.9%	24.5%	1,872.34	5.3%	19.3%	5.2%
2014 Q3	17.47	29.4%	25.0%	1,960.23	20.1%	19.4%	5.6%
2014 Q4	16.83	-13.9%	20.8%	1,972.29	2.5%	17.8%	3.1%
2015 Q1	17.04	5.1%	19.4%	2,058.90	18.8%	17.9%	1.6%
2015 Q2	17.95	23.1%	19.7%	2,067.89	1.8%	16.5%	3.2%
2015 Q3	17.59	-7.8%	17.5%	2,063.11	-0.9%	15.2%	2.3%
2015 Q4	15.43	-40.8%	12.3%	1,920.03	-25.0%	11.9%	0.3%
2016 Q1	15.18	-6.3%	11.0%	2,043.94	28.4%	12.9%	-1.9%
2016 Q2	15.40	5.9%	10.7%	2,059.74	3.1%	12.3%	-1.6%